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Department of the Treasury

PRESS RELEASES

TREASURY



NEWS

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FOR IMMEDIATE RELEASE  
November 1, 1996

Contact: Darren McKinney  
(202) 622-2960

### U.S. AND SOUTH AFRICA INITIAL INCOME TAX TREATY

The Treasury Department today announced that delegations from the United States and South Africa have reached agreement, subject to review, on an income tax convention.

The text of the Convention was initialed by Trevor van Heerden, South African Commissioner for Inland Revenue and by Philip West, Deputy International Tax Counsel of the U.S. Treasury Department. The initialing confirmed the mutual commitment of the two delegations to move forward as quickly as possible with the required review, followed by signature and ratification of the Convention. The treaty will enter into force following completion of the ratification process by both countries.

Acting Assistant Secretary of the Treasury for Tax Policy Donald Lubick hailed the initialing as an important step in Treasury's goal of expanding the U.S. tax treaty network with important trading partners.

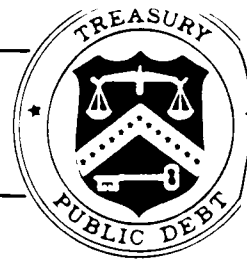
The text of the new Convention will be made public after signature.

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RR-1354



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239  
FOR IMMEDIATE RELEASE Contact: Peter Hollenbach  
November 1, 1996 (202) 219-3302

## BUREAU OF THE PUBLIC DEBT ANNOUNCES SAVINGS BOND RATES FOR NOVEMBER 1996 THROUGH APRIL 1997

The Bureau of the Public Debt announced today the market-based rates for U.S. Savings Bonds for November 1996 through April 1997.

### SHORT-TERM SAVINGS BOND RATE 4.56%

The 4.56 percent short-term rate is 85 percent of the average of six-month Treasury security yields for August through October 1996. A new rate is announced each May 1 and November 1. Series EE bonds issued on or after May 1, 1995, earn the short-term rates for semi-annual interest accrual periods beginning on or after each announcement date for the first five years.

### LONG-TERM SAVINGS BOND RATE 5.53%

The 5.53 percent long-term rate is 85 percent of the average of five-year Treasury security yields for May 1996 through October 1996. Series EE bonds issued on or after May 1, 1995, earn long-term rates from five years through 17 years. The long-term rate in this announcement is provided only for reference.

### SERIES E AND EE SAVINGS BONDS ISSUED BEFORE MAY 1995

Series E and EE bonds as well as Savings Notes issued before May 1995, held five years and longer, continue to earn 85 percent of the average five-year Treasury securities yields during the holding period or a guaranteed minimum yield whichever produces the higher value. See table on the back for EE bond yields.

### SERIES H AND HH BOND RATE 4.00%

Series H and HH bonds issued or entering an extended maturity period since March 1, 1993, pay interest semiannually at a fixed rate of 4 percent per annum.

### MATURED SERIES E SAVINGS BONDS

Series E savings bonds continue to reach final maturity and stop earning interest. Bonds issued between May 1941 and October 1956, along with those issued between December 1965 and October 1966 have stopped earning interest. Bonds with issues dates shown here will reach final maturity in the next six months.

<b>Bond Issue Dates</b>	<b>Bonds Stop Earning Interest</b>
November 1956 through May 1957	November 1996 through May 1997
November 1966 through May 1967	November 1996 through May 1997

The latest *United States Savings Bonds/Notes Earnings Report* and other useful information about savings bonds is available at Public Debt's Internet Home Page ([HTTP://www.ustreas.gov/treasury/bureaus/pubdebt](http://www.ustreas.gov/treasury/bureaus/pubdebt)). The table on the back of this bulletin shows actual yields for Series EE bonds.

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**REDEMPTION VALUES AND YIELDS FOR  
\$100 SERIES EE BONDS -- NOVEMBER 1996 THROUGH OCTOBER 1997**

This table shows semiannual redemption values for \$100 Series EE Bonds\* Values for other denominations are proportional to the values shown For example, the value of a \$50 bond is one-half the amount shown and the value of a \$500 bond is five times the amount shown The Earnings column shows the annual yield that the bonds will earn during the period indicated. The Yield From Issue Date is the bond's yield from its issue date to the date shown or date adjusted as shown in the footnotes. Additional information may be obtained from the Bureau of the Public Debt, 200 Third Street, Parkersburg, WV 26106-1328.

Series EE Bond Issue Dates	Value as of		Semiannual Earnings		Value and Yield From Issue Date		
	Date**	Amount	Period begins**	Yield***	Date**	Amount	Yield
11/96 thru 4/97	11/1/96	50.00	11/1/96	4.64%	5/1/97	51.16	4.64%
5/96 thru 10/96	11/1/96	51.08	11/1/96	4.54%	5/1/97	52.24	4.43%
11/95 thru 4/96	11/1/96	52.32	11/1/96	4.59%	5/1/97	53.52	4.59%
5/95 thru 10/95	11/1/96	53.68	11/1/96	4.62%	5/1/97	54.92	4.75%
11/94 thru 4/95	11/1/96	54.16	11/1/96	3.99%	5/1/97	55.24	4.03%
5/94 thru 10/94	11/1/96	55.24	11/1/96	3.91%	5/1/97	56.32	4.01%
11/93 thru 4/94	11/1/96	56.32	11/1/96	3.98%	5/1/97	57.44	4.00%
5/93 thru 10/93	11/1/96	57.44	11/1/96	4.04%	5/1/97	58.60	4.01%
3/93 thru 4/93	3/1/97	58.60	3/1/97	3.96%	9/1/97	59.76	4.00%
11/92 thru 2/93	11/1/96	62.12	11/1/96	7.86%	5/1/97	64.56	5.76%
5/92 thru 10/92	11/1/96	64.56	11/1/96	8.18%	5/1/97	67.20	6.00%
11/91 thru 4/92	11/1/96	67.20	11/1/96	6.07%	5/1/97	69.24	6.01%
5/91 thru 10/91	11/1/96	69.24	11/1/96	6.01%	5/1/97	71.32	6.01%
11/90 thru 4/91	11/1/96	71.32	11/1/96	5.95%	5/1/97	73.44	6.00%
5/90 thru 10/90	11/1/96	73.44	11/1/96	5.99%	5/1/97	75.64	6.00%
11/89 thru 4/90	11/1/96	75.64	11/1/96	6.03%	5/1/97	77.92	6.00%
5/89 thru 10/89	11/1/96	77.92	11/1/96	5.95%	5/1/97	80.24	6.00%
11/88 thru 4/89	11/1/96	80.24	11/1/96	6.08%	5/1/97	82.68	6.01%
5/88 thru 10/88	11/1/96	82.68	11/1/96	6.00%	5/1/97	85.16	6.01%
11/87 thru 4/88	11/1/96	85.16	11/1/96	5.92%	5/1/97	87.68	6.00%
5/87 thru 10/87	11/1/96	87.68	11/1/96	6.02%	5/1/97	90.32	6.00%
11/86 thru 4/87	11/1/96	90.32	11/1/96	6.02%	5/1/97	93.04	6.00%
5/86 thru 10/86	11/1/96	106.56	11/1/96	3.98%	5/1/97	108.68	7.18%
11/85 thru 4/86	11/1/96	108.68	11/1/96	3.97%	5/1/97	110.84	7.04%
5/85 thru 10/85	11/1/96	110.84	11/1/96	4.04%	5/1/97	113.08	6.92%
11/84 thru 4/85	11/1/96	113.08	11/1/96	3.96%	5/1/97	115.32	6.80%
5/84 thru 10/84	11/1/96	115.32	11/1/96	4.02%	5/1/97	117.64	6.69%
11/83 thru 4/84	11/1/96	119.44	11/1/96	5.43%	5/1/97	122.68	6.76%
5/83 thru 10/83	11/1/96	124.64	11/1/96	5.46%	5/1/97	128.04	6.83%
3/83 thru 4/83	3/1/97	131.56	3/1/97	5.29%	9/1/97	135.04	6.97%
11/82 thru 2/83	11/1/96	132.32	11/1/96	5.99%	5/1/97	136.28	7.04%
5/82 thru 10/82	11/1/96	148.52	11/1/96	5.98%	5/1/97	152.96	7.60%
11/81 thru 4/82	11/1/96	152.96	11/1/96	6.01%	5/1/97	157.56	7.54%
5/81 thru 10/81	11/1/96	157.56	11/1/96	5.99%	5/1/97	162.28	7.50%
11/80 thru 4/81	11/1/96	166.24	11/1/96	5.97%	5/1/97	171.20	7.60%
5/80 thru 10/80	11/1/96	179.64	11/1/96	6.01%	5/1/97	185.04	7.85%
1/80 thru 4/80	1/1/97	183.20	1/1/97	5.98%	7/1/97	188.68	7.73%

\* Monthly increases in value, applicable to some bonds issued prior to May 1995, are not shown in the table.

\*\* The dates shown are for the first issue date of the range in the first column. Add one month for each later issue month. For example, a bond issued in 01/96 (two months after the first date in the range) would be worth the amount shown two months after the date listed. The six-month earning period would begin two months later than the date shown.

\*\*\* Yields and savings bond rates may not agree due to rounding and due to the methodology for computing market-based yields for bonds issued prior to May 1, 1995.

DEPARTMENT OF THE TREASURY

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**Monthly Report  
by the  
Secretary of the Treasury**

*Pursuant to the  
Mexican Debt Disclosure Act  
of 1995*

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October 1996

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## **I. Overview**

In providing assistance to Mexico under the February 21, 1995 Agreements, the U.S. government acted to protect vital U.S. interests: American exports and jobs, the security of our common border, and the stability of other emerging market economies. U.S. and other international support in 1995 has allowed Mexico to implement the policies necessary to avert default, regain access to international capital markets, and restore the basis for sustainable growth.

The Mexican economy is rebounding from the deep recession of 1995. Second-quarter 1996 GDP grew 7.2% compared to a year earlier, and recent economic indicators point to continued growth in the third quarter. In an October survey by *Consensus Economics*, private analysts forecast 1996 real GDP growth at 4.1%, compared to 2% at the beginning of this year. Fueled by the resumption of Mexican growth, U.S. exports to Mexico are running at record levels this year.

Monetary and fiscal policy continue to be solid. First-half 1996 fiscal results were within government targets, and growth of monetary aggregates also remains well within the Bank of Mexico's targets. Restrained money growth has helped Mexico to achieve a path of steady disinflation, as seen by the September monthly inflation rate of 1.6%.

On October 26, the Mexican government, the Bank of Mexico, and labor and business representatives signed the annual "Alliance for Economic Growth", also known as the PACTO, which sets out 1997 economic targets. The PACTO calls for the maintenance of firm fiscal and monetary policies, an increase in the minimum wage in line with projected inflation, and the continuation of a floating exchange rate. Key targets include 15% inflation, 4% real GDP growth, a budget deficit of 0.5% of GDP, a current account deficit of less than 2% of GDP, and a 17% increase in the minimum wage.

The peso came under pressure in October, falling 5.3% through October 31, from P7.54 per dollar to P7.96 per dollar, a 3.5% drop from its end-1995 level. The Bank of Mexico tightened monetary policy modestly in mid-October to help prevent undue exchange rate volatility. Interest rates on the benchmark 28-day *cetes* rose to 29.3% in the October 29 auction, more than six percentage points above their early October, post-crisis lows of about 22.7%. One-year interest rates rose less than two percentage points to 28.6%, as the yield curve flattened.

In other October financial market developments, Brady Par bond stripped spreads widened by 49 basis points during the month to October 29, after reaching a post-crisis low on October 4 of 475 basis points over Treasuries. Mexican equity prices fell 0.7% through

*Treasury Secretary's Report to Congress  
October 1996*

October 31. The Mexican government and its agencies continued to attract international capital in October, and have now raised over \$15 billion in 1996 to date.

Banking system restructuring continues. On October 24, Spain's Banco Santander announced that it will acquire a 75% stake in Grupo Financiero Invermexico, which owns the fifth largest bank in Mexico, Banco Mexicano. This marks the fourth recent purchase of a Mexican bank by a foreign investor.

On October 13, the government of Mexico announced that it would scale back its plans for petrochemical privatization, reserving 51% of shares for the government and selling 49% to the private sector. The government also announced it would fully open new petrochemical investment to private investors, both domestic and foreign.

Mexico has met all payment obligations to date under the U.S. financial support program. Including the August prepayment of \$7 billion, Mexico has repaid a net \$9 billion in outstanding short- and medium-term swaps to the Treasury and Federal Reserve. Thus, Mexico has repaid nearly three-quarters of its debt to the U.S., well ahead of schedule. It has also made interest payments totaling \$1.36 billion, including a \$68 million payment on September 30.

Mexico's \$3.5 billion in remaining obligations to the U.S. under the February 21, 1995 Agreements continue to be fully backed by proceeds from Mexico's crude oil, oil products, and petrochemical product exports. Payments for these exports flow through a special account at the Federal Reserve Bank of New York. As of October 21, \$13.9 billion had passed through this account.

*Treasury Secretary's Report to Congress  
October 1996*

**II. Current Condition of Mexico's Economy**

**a. Economic Adjustment**

***Recent data suggest that the recovery continued in the third quarter of 1996, and that the external sector remains strong***

Economic indicators showed continued strength in August and September, following the 7.2% year-over-year (y/y) GDP growth in the second quarter of 1996.

- In the first eight months of the year, industrial production rose 9.2% compared to the first eight months of 1995 and 1% compared to the same period in 1994.
  - Construction output in August was at its highest level since December 1994. It rose 20% during the June through August period compared to the previous three-month period.
- Domestic vehicle sales in September rose 22% compared to August. For the first nine months of 1996, domestic vehicle sales were almost double their level for the same period in 1995, but remained significantly below 1994 levels.

Mexico's trade balance registered a \$601 million surplus in September (preliminary). For the first nine months of 1996, the trade surplus was \$4.5 billion, \$100 million more than the first nine months of 1995.

- During the first nine months of 1996, exports and imports rose 19% and 20.2%, respectively, over the same period in 1995.
- U.S. exports to Mexico rose to a record high in the first eight months of 1996, increasing by 19.7%, compared to the same period in 1995, and 9% over the same period in 1994.

***Labor markets remain steady***

- The number of workers permanently registered in the social security system (IMSS), a measure of employment in the formal economy, rose in August by 6.9% from a year earlier, and by 0.7% compared to July.
- The open unemployment rate, a narrow rate of joblessness in the urban formal sector, rose to 5.5% in September from 5.3% in August. The uptick reflected



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seasonal influences. The open unemployment rate is down from September 1995, when it was 7.3%.

**II. b. Monetary and Fiscal Policy**

*Monetary aggregates indicate policy remains on track*

- Since January 1 of this year, base money has fallen about 9.2%, to P60.6 billion. Although this decline is seasonal, at the end of September base money was substantially below the Bank of Mexico's target for the third quarter. Over twelve months ending in September, base money fell slightly in real terms.
- In 1996, net domestic credit (NDA) has fallen by P37 billion while net international reserves have increased by \$3.9 billion.

In mid-October, the BOM announced a modest tightening of monetary policy, and money market interest rates moved higher.

*Mexico maintained a firm fiscal stance in the first half of 1996*

- The budget registered a surplus in the first half of 1996, aided by higher-than-projected oil prices, which boosted revenues, and lower-than-projected interest rates, which reduced expenditures.

*Inflation continues to recede*

- Monthly inflation registered 1.6% in September, an uptick from the August rate of 1.3% that had been expected for seasonal reasons. Inflation for the first half of October was 0.7%.

*Mexico reaffirms commitment to macroeconomic discipline*

On October 26, the Mexican government, the Bank of Mexico, and labor and business representatives signed the annual "Alliance for Economic Growth", also known as the PACTO, which sets out 1997 economic targets. The PACTO calls for the maintenance of firm fiscal and monetary policies, an increase in the minimum wage in line with projected inflation, and the continuation of a floating exchange rate. Key targets include 15% inflation, 4% real GDP growth, a budget deficit of 0.5% of GDP, a

*Treasury Secretary's Report to Congress  
October 1996*

current account deficit of less than 2% of GDP, and a 17% increase in the minimum wage.

**II. c. Financial Sector and Other Structural Developments**

***Restructuring continues in the banking system***

- On October 24, Spain's Banco Santander announced that it will acquire a 75% stake in Grupo Financiero Invermexico, which owns the fifth largest bank in Mexico, Banco Mexicano. This marks the fourth recent purchase of a Mexican bank by a foreign investor.
  - The transaction will inject \$425 million in new capital into Banco Mexicano, which will also sell about \$2.4 billion in overdue loans to FOBAPROA, the central bank's insurance fund.
- On September 30, as scheduled, the GOM ended the small debtor relief program (ADE). Loans that had benefitted from reduced interest rates under the ADE program are now subject to market interest rates.

***Non-performing loans decline slightly, but remain high***

- The level of non-performing loans for the entire private banking system (including those of the intervened banks but excluding loans sold to FOBAPROA, the central bank's insurance fund) fell to 12.7% on August 31 from 13.3% on July 31.

***Mexico announces new program for petrochemicals***

On October 13, the government of Mexico announced that it would scale back its plans for petrochemical privatization, reserving 51% of shares for the government and selling 49% to the private sector. It also announced it would fully open new petrochemical investment to private investors, both domestic and foreign.

- The government of Mexico submitted legislation to Congress intended to provide greater legal clarity for private investors in the petrochemicals sector. Both houses approved the legislation by October 29.

*Treasury Secretary's Report to Congress  
October 1996*

**II. d. Financial Markets**

**The peso depreciated, interest rates rose**

The peso came under pressure in October, falling 5.3% through October 31, closing at P7.96 to the dollar, from its September 30 close of P7.54.

- After falling about 1% through October 29, the real (inflation-adjusted) exchange rate was about 18.3% above its end-1995 level. The peso is still about 20.5% below its pre-devaluation (November 1994) level in real terms.

The October 29 primary auction resulted in 28-day cetes yields of 29.34% (on an annualized basis), up from 23.28% at the September 24 auction. One-year rates were at 28.63% at the October 29 primary auction, slightly up from 28.03% at the September 24 auction.

- Rates on Udibonos (3-year maturity) dropped from 8.21% on September 17 to 7.70% on October 29. (Those bonds yield a "real" rate, in that their principal is indexed to Mexican inflation.)

*Financial asset prices were down*

- As of October 31, Mexico's stock market fell 0.7% in peso terms since the end of September, but is up 122% over the February 1995 low, and up 38% from pre-crisis levels. In dollar terms, the Bolsa index is still down 40% from pre-crisis levels, but up 98% from its March 1995 low.
- The Mexican Brady Par Bond yield spread over U.S. Treasuries, adjusted to remove the effect of partial collateralization, rose from 5.10% on September 30 to 5.59% on October 29. This is about 14 percentage points below the 19.37% spread reached in March 1995.
- Mexico's 30-year uncollateralized dollar global bond, which was priced to yield a spread of 552 basis points (bps) over U.S. Treasuries on April 30, was trading in the secondary market on October 29 at 491 bps over comparable U.S. Treasuries, compared with a spread of 458 bps on September 30.

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October 1996*

***Mexico continues to attract international capital***

The Mexican government and its agencies have raised over \$15 billion in the international capital markets in 1996 to date.

- On October 7, Mexico increased its eight-year DM1 billion Eurobond issue, launched in August, by DM500 million (approximately \$327 million). For the first five years, the bonds pay an interest rate of 8.125%, and then the yield rises to 10.875% until maturity.
- Pemex, the state run oil company, announced on October 8 that it will sell \$300 million in three-year Eurobonds. The bonds carry a coupon of 7.75%, and are priced to yield 175 bps over U.S. Treasuries.

**II. e. International Reserves**

Net international reserves (BOM definition) were \$15.8 billion on October 25, up slightly from their level at the end of September, and roughly unchanged from their end-1995 level.

- Reserves (BOM definition) continue to exceed three months of *non-maquiladora* imports -- despite strong import growth this year.
- Net International Reserves (IMF definition) were \$3.9 billion on October 25, roughly unchanged from end-September. (The IMF definition of reserves excludes amounts owed to the IMF.)

**III. Mexico's Financial Transactions**

In accordance with the February 21, 1995 Agreements, Mexico requested, and Treasury authorized, funds disbursed under the program to be used to redeem *tesobonos* and other short-term, dollar-denominated debt of the Mexican government and its agencies. All funds have been used to redeem *tesobonos*, which are now fully retired.

*Treasury Secretary's Report to Congress  
October 1996*

**IV. Disbursements, Swaps, Guarantees and Compensation to the U.S. Treasury**

Following Mexico's \$7 billion prepayment to the U.S. Treasury on August 5, \$3.5 billion remains outstanding as of September 30, all in the form of medium-term swaps.

- A total of \$13.5 billion in U.S. funds have been disbursed to Mexico under the support program: \$3 billion in short-term swaps and \$10.5 billion in medium-term swaps. (Swap arrangements are described in the June 1996 Semi-annual Report.) Of this total, no more than \$12.5 billion has been outstanding at any one time. The United States has not extended any securities guarantees to Mexico under the support program.

Mexico has not missed any interest payments or required principal repayments under any of the swaps.

- To date, the United States has received \$1.36 billion in interest payments from Mexico, including \$68 million in interest on medium-term swaps paid to the ESF on September 30.
- The period during which disbursements could be made under the February 21, 1995 agreements ended on August 21, 1996. The last disbursement under the program was made on July 5, 1995.

**V. Status of the Oil Facility**

The payment mechanism, established under the Oil Proceeds Facility Agreement, continues to function smoothly. This has been confirmed by independent reviews (in August 1995, February 1996, and August 1996).

- In each review, Petroleos Mexicanos' (PEMEX) independent public auditors, Coopers & Lybrand, analyzed the information utilized for the previous two quarterly export reports prepared by PEMEX and provided to the U.S. Treasury pursuant to the Oil Proceeds Facility Agreement.
- According to the reviews, the quarterly reports "fairly present" information related to both PEMEX's oil exports and the collection of proceeds from such exports. The next semi-annual review is expected in February 1997.

Amortization Schedule of ESF and Federal Reserve Swaps with Mexico

	U.S. Millions	Repayments to date (bold); Scheduled Repayment for outstanding balance (US\$ million)							Total Due (US\$ million)	
		Short-term swaps* provided on:			Medium-term swaps provided on:				Quarterly	Annually***
		01/11/95	01/13/95	02/02/95***	03/14/95	04/19/95	05/19/95	07/05/95		
<b>Total Disbursed</b>	<b>13,500</b>	<b>500</b>	<b>500</b>	<b>2,000</b>	<b>3,000</b>	<b>3,000</b>	<b>2,000</b>	<b>2,500</b>		
<b>Quarter Ending</b>		<b>Current Interest Rate:</b>			<b>7.50%</b>	<b>10.16%</b>	<b>10.16%</b>	<b>9.20%</b>		
		na	na	na						
Mar-31-95	6,000	500 (Mar14)	500 (Mar14)							
Jun-30-95	5,000									
Sep-30-95	2,500									
Dec-31-95				700 (Oct11)						
Mar-31-96			1,300 (Jan 29)		0	0	0	0		
Jun-30-96					0	0	0	0		
Sep-30-96					0	3000 (Aug 5)	2000 (Aug 5)	2000 (Aug 5)		
Dec-31-96					0	0	0	0		
Mar-31-97					0	0	0	0		
Jun-30-97					0	0	0	0		
Sep-30-97					0	0	0	41**	41	
Dec-31-97					0	0	0	41	41	82
Mar-31-98					0	0	0	41	41	
Jun-30-98						375**	0	0	41	416
Sep-30-98						375	0	0	41	416
Dec-31-98						375	0	0	41	416
Mar-31-99						375	0	0	41	416
Jun-30-99						375	0	0	41	416
Sep-30-99						375	0	0	41	416
Dec-31-99						750	0	0	41	791
Mar-31-2000						0	0	0	41	41
Jun-30-2000						0	0	0	49	49
Sep-30-2000						0	0	0	0	0
Dec-31-2000						0	0	0	0	90
<b>Total Remaining</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>500</b>	<b>3,500</b>	<b>3,500</b>

\*Short-term swap totals for each period represent equivalent amounts for ESF and Federal Reserve.

\*\*All medium-term swaps payments are due on last date in each calendar quarter. Amounts due from swaps of 7/95 reduced pro rata through partial payment 8/96.

\*\*\*\$2 billion in short-term swaps disbursed on February 2, 1995 were rolled over for an additional 90 day period on May 3, 1995, and August 1, 1995, for a new maturity date of October 30, 1995. On October 11, Mexico repaid \$700 million of these obligations. The outstanding \$1.3 billion was rolled over for an additional 90 day period on October 30, for a new maturity date of January 29, 1996, when they were repaid.

\*\*\*\*This column represents the sum of quarterly payments in a given year; it does not represent an additional payment.

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EMBARGOED UNTIL 2:30 P.M.  
November 1, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately \$19,250 million of 52-week Treasury bills to be issued November 14, 1996. This offering will provide about \$375 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of \$18,870 million. In addition to the maturing 52-week bills, there are \$26,333 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold \$12,055 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,998 million of the maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold none of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

RR-1357

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040



HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS  
TO BE ISSUED NOVEMBER 14, 1996

November 1, 1996

Offering Amount . . . . . \$19,250 million

Description of Offering:

Term and type of security . . . . . 364-day bill  
CUSIP number . . . . . 912794 2W 3  
Auction date . . . . . November 7, 1996  
Issue date . . . . . November 14, 1996  
Maturity date . . . . . November 13, 1997  
Original issue date . . . . . November 14, 1996  
Maturing amount . . . . . \$18,870 million  
Minimum bid amount . . . . . \$10,000  
Multiples . . . . . \$1,000

Submission of Bids:

Noncompetitive bids . . . . . Accepted in full up to \$1,000,000  
at the average discount rate of  
accepted competitive bids  
Competitive bids . . . . . (1) Must be expressed as a discount rate  
with two decimals, e.g., 7.10%  
(2) Net long position for each bidder  
must be reported when the sum of the  
total bid amount, at all discount  
rates, and the net long position is  
\$2 billion or greater.  
(3) Net long position must be determined  
as of one half-hour prior to the  
closing time for receipt of  
competitive tenders.

Maximum Recognized Bid  
at a Single Yield . . . . . 35% of public offering

Maximum Award . . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . Prior to 11:00 a.m. Eastern Standard  
time on auction day  
Competitive tenders . . . . . Prior to 11:30 a.m. Eastern Standard  
time on auction day

Payment Terms . . . . . Full payment with tender or by charge  
to a funds account at a Federal  
Reserve bank on issue date



**AUCTION  
RESULTS**

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 4, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$14,142 million of 13-week bills to be issued November 7, 1996 and to mature February 6, 1997 were accepted today (CUSIP: 9127942L7).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.03%	5.16%	98.729
High	5.04%	5.18%	98.726
Average	5.04%	5.18%	98.726

Tenders at the high discount rate were allotted 47%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$58,994,871	\$14,142,297
Type		
Competitive	\$53,189,191	\$8,336,617
Noncompetitive	<u>1,510,653</u>	<u>1,510,653</u>
Subtotal, Public	\$54,699,844	\$9,847,270
Federal Reserve	3,748,010	3,748,010
Foreign Official Institutions	<u>547,017</u>	<u>547,017</u>
TOTALS	\$58,994,871	\$14,142,297

An additional \$45,483 thousand of bills will be issued to foreign official institutions for new cash.

RR-1358

AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 4, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$14,055 million of 26-week bills to be issued November 7, 1996 and to mature May 8, 1997 were accepted today (CUSIP: 9127944H4).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.06%	5.26%	97.442
High	5.08%	5.29%	97.432
Average	5.08%	5.29%	97.432

Tenders at the high discount rate were allotted 93%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$55,430,595	\$14,054,585
Type		
Competitive	\$47,907,610	\$6,531,600
Noncompetitive	<u>1,242,402</u>	<u>1,242,402</u>
Subtotal, Public	\$49,150,012	\$7,774,002
Federal Reserve	3,700,000	3,700,000
Foreign Official Institutions	<u>2,580,583</u>	<u>2,580,583</u>
TOTALS	\$55,430,595	\$14,054,585

An additional \$214,117 thousand of bills will be issued to foreign official institutions for new cash.

5.07 - 97.437

AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 5, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for \$18,501 million of 3-year notes, Series Z-1999, to be issued November 15, 1996 and to mature November 15, 1999 were accepted today (CUSIP: 912827Z96)

The interest rate on the notes will be 5 7/8%. The range of accepted bids and corresponding prices are as follows:

	<u>Yield</u>	<u>Price</u>
Low	5.872%	100.008
High	5.889%	99.962
Average	5.879%	99.989

Tenders at the high yield were allotted 10%.

## TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$42,194,660	\$18,501,060

The \$18,501 million of accepted tenders includes \$564 million of noncompetitive tenders and \$17,937 million of competitive tenders from the public.

In addition, \$1,635 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$2,716 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.  
November 5, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$28,000 million, to be issued November 14, 1996. This offering will provide about \$1,675 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of \$26,333 million. In addition to the maturing 13-week and 26-week bills, there are \$18,870 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold \$12,055 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,654 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold the entire \$4,654 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1361

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED NOVEMBER 14, 1996**

November 5, 1996

<u>Offering Amount</u> . . . . .	\$14,000 million	\$14,000 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 3Y 8	912794 4J 0
Auction date . . . . .	November 12, 1996	November 12, 1996
Issue date . . . . .	November 14, 1996	November 14, 1996
Maturity date . . . . .	February 13, 1997	May 15, 1997
Original issue date . . . . .	August 15, 1996	November 14, 1996
Currently outstanding . . . . .	\$12,549 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

<u>Maximum Recognized Bid at a Single Yield</u> . . . . .	35% of public offering
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<u>Maximum Award</u> . . . . .	35% of public offering
--------------------------------	------------------------

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

<u>Payment Terms</u> . . . . .	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date
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**AUCTION  
RESULTS**

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 6, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 9-YEAR, 11-MONTH NOTES

Tenders for \$10,002 million of 9-year, 11-month notes, Series D-2006, to be issued November 15, 1996 and to mature October 15, 2006 were accepted today (CUSIP: 912827Z62).

The interest rate on the notes will be 6 1/2%. The range of accepted bids and corresponding prices are as follows:

	<u>Yield</u>	<u>Price</u>
Low	6.260%	101.739
High	6.283%	101.570
Average	6.273%	101.643

Tenders at the high yield were allotted 46%.

## TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$24,061,165	\$10,001,825

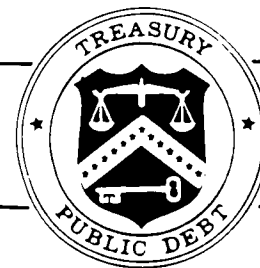
The \$10,002 million of accepted tenders includes \$306 million of noncompetitive tenders and \$9,696 million of competitive tenders from the public.

In addition, \$1,470 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is \$400,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of \$5.53571 per \$1,000 of par must be paid for the period October 15, 1996 to November 15, 1996.

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:00 PM  
November 6, 1996

Contact: Peter Hollenbach  
(202) 219-3302

## PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR OCTOBER 1996

Treasury's Bureau of the Public Debt announced activity figures for the month of October 1996, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

### Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$925,429,824
Held in Unstripped Form	\$698,207,518
Held in Stripped Form	\$227,222,306
Reconstituted in October	\$12,048,644

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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PA-240

RR-1363

TABLE VI -- HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 31, 1996  
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month #1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
7-1/4% Note D-1996.....	11/15/96.....	20,258,810	16,175,610	4,083,200	420,000
8-1/2% Note A-1997.....	05/15/97.....	9,921,237	7,590,837	2,330,400	299,600
8-5/8% Note B-1997.....	08/15/97.....	9,362,836	6,775,636	2,587,200	44,800
8-7/8% Note C-1997.....	11/15/97.....	9,808,329	6,534,729	3,273,600	46,400
8-1/8% Note A-1998.....	02/15/98.....	9,159,068	7,605,148	1,553,920	55,680
9% Note B-1998.....	05/15/98.....	9,165,387	6,737,787	2,427,600	52,400
9-1/4% Note C-1998.....	08/15/98.....	11,342,646	8,262,646	3,080,000	16,000
8-7/8% Note D-1998.....	11/15/98.....	9,902,875	6,570,075	3,332,800	43,200
8-7/8% Note A-1999.....	02/15/99.....	9,719,623	7,991,623	1,728,000	24,000
9-1/8% Note B-1999.....	05/15/99.....	10,047,103	6,867,903	3,179,200	81,600
8% Note C-1999.....	08/15/99.....	10,163,644	7,297,044	2,866,600	9,600
7-7/8% Note D-1999.....	11/15/99.....	10,773,960	7,367,560	3,406,400	65,600
8-1/2% Note A-2000.....	02/15/00.....	10,673,033	8,015,433	2,657,600	4,000
8-7/8% Note B-2000.....	05/15/00.....	10,496,230	5,688,230	4,808,000	4,800
8-3/4% Note C-2000.....	08/15/00.....	11,080,646	7,134,886	3,945,760	206,880
8-1/2% Note D-2000.....	11/15/00.....	11,519,682	7,435,282	4,084,400	86,000
7-3/4% Note A-2001.....	02/15/01.....	11,312,802	7,996,002	3,316,800	44,000
8% Note B-2001.....	05/15/01.....	12,398,083	8,641,183	3,756,900	23,800
7-7/8% Note C-2001.....	08/15/01.....	12,339,185	9,609,585	2,729,600	81,600
7-1/2% Note D-2001.....	11/15/01.....	24,226,102	21,216,102	3,010,000	76,000
7-1/2% Note A-2002.....	05/15/02.....	11,714,397	10,108,637	1,605,760	94,000
6-3/8% Note B-2002.....	08/15/02.....	23,859,015	22,678,215	1,180,800	156,800
6-1/4% Note A-2003.....	02/15/03.....	23,562,691	23,223,395	339,296	45,888
5-3/4% Note B-2003.....	08/15/03.....	28,011,028	27,616,628	394,400	199,200
5-7/8% Note A-2004.....	02/15/04.....	12,955,077	12,782,277	172,800	0
7-1/4% Note B-2004.....	05/15/04.....	14,440,372	14,435,572	4,800	0
7-1/4% Note C-2004.....	08/15/04.....	13,346,467	13,300,867	45,600	5,600
7-7/8% Note D-2004.....	11/15/04.....	14,373,760	14,373,760	0	0
7-1/2% Note A-2005.....	02/15/05.....	13,834,754	13,834,754	0	0
6-1/2% Note B-2005.....	05/15/05.....	14,739,504	14,739,504	0	0
6-1/2% Note C-2005.....	08/15/05.....	15,002,580	15,002,580	0	0
5-7/8% Note D-2005.....	11/15/05.....	15,209,920	15,209,920	0	0
5-5/8% Note A-2006.....	02/15/06.....	15,513,587	15,513,587	0	0
6-7/8% Note B-2006.....	05/15/06.....	16,015,475	16,015,475	0	0
7% Note C-2006.....	07/15/06.....	22,740,446	22,740,446	0	0
6 1/2% Note D-2006.....	10/15/06.....	10,984,212	10,984,212	0	0
11-5/8% Bond 2004.....	11/15/04.....	8,301,806	4,135,406	4,166,400	59,200
12% Bond 2005.....	05/15/05.....	4,260,758	2,092,808	2,167,950	225,000
10-3/4% Bond 2005.....	08/15/05.....	9,269,713	6,644,113	2,625,600	207,200
9-3/8% Bond 2006.....	02/15/06.....	4,755,916	4,741,516	14,400	0
11-3/4% Bond 2009-14.....	11/15/14.....	6,005,584	2,063,984	3,941,600	111,200
11-1/4% Bond 2015.....	02/15/15.....	12,667,799	9,943,959	2,723,840	1,604,000
10-5/8% Bond 2015.....	08/15/15.....	7,149,916	3,452,636	3,697,280	716,800
9-7/8% Bond 2015.....	11/15/15.....	6,899,859	4,551,059	2,348,800	518,400
9-1/4% Bond 2016.....	02/15/16.....	7,266,854	6,254,854	1,012,000	24,800
7-1/4% Bond 2016.....	05/15/16.....	18,823,551	18,633,951	189,600	200,000
7-1/2% Bond 2016.....	11/15/16.....	18,864,448	17,959,008	905,440	11,600
8-3/4% Bond 2017.....	05/15/17.....	18,194,169	11,316,729	6,877,440	832,000
8-7/8% Bond 2017.....	08/15/17.....	14,016,858	7,962,458	6,054,400	430,400
9-1/8% Bond 2018.....	05/15/18.....	8,708,639	2,342,239	6,366,400	148,800
9% Bond 2018.....	11/15/18.....	9,032,870	2,502,870	6,530,000	231,000
8-7/8% Bond 2019.....	02/15/19.....	19,250,798	5,113,198	14,137,600	960,000
8-1/8% Bond 2019.....	08/15/19.....	20,213,832	18,069,512	2,144,320	249,600
8-1/2% Bond 2020.....	02/15/20.....	10,228,868	6,318,068	3,910,800	129,200
8-3/4% Bond 2020.....	05/15/20.....	10,158,883	4,170,883	5,988,000	140,000
8-3/4% Bond 2020.....	08/15/20.....	21,418,606	6,213,646	15,204,960	469,280
7-7/8% Bond 2021.....	02/15/21.....	11,113,373	9,966,173	1,147,200	78,400
8-1/8% Bond 2021.....	05/15/21.....	11,958,888	5,181,928	6,776,960	208,320
8-1/8% Bond 2021.....	08/15/21.....	12,163,482	4,454,362	7,709,120	96,000
8% Bond 2021.....	11/15/21.....	32,798,394	6,392,194	26,406,200	136,300
7-1/4% Bond 2022.....	08/15/22.....	10,352,790	8,576,790	1,776,000	196,000
7-5/8% Bond 2022.....	11/15/22.....	10,699,626	3,066,026	7,633,600	64,000
7-1/8% Bond 2023.....	02/15/23.....	18,374,361	14,262,361	4,112,000	176,000
6-1/4% Bond 2023.....	08/15/23.....	22,909,044	22,397,204	511,840	112,256
7-1/2% Bond 2024.....	11/15/24.....	11,469,662	3,985,662	7,484,000	499,920
7-5/8% Bond 2025.....	02/15/25.....	11,725,170	5,893,170	5,832,000	798,400
6-7/8% Bond 2025.....	08/15/25.....	12,602,007	12,174,487	427,520	197,120
6% Bond 2026.....	02/15/26.....	12,904,916	12,430,516	474,400	30,000
6-3/4% Bond 2026.....	08/15/26.....	10,893,818	10,870,618	23,200	0
Total.....		925,429,824	698,207,518	227,222,306	12,048,644

#1 Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

Note: On the 4th workday of each month Table VI will be available after 3:00 p.m. eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 482-1986. The balances in this table are subject to audit and subsequent adjustments.





November 7, 1996

## Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of October 1996.

As indicated in this table, U.S. reserve assets amounted to \$75,558 million at the end of October 1996, up from \$75,509 million in September 1996.

U.S. Reserve Assets (in millions of dollars)						
End of Month	Total Reserve Assets	Gold Stock <u>1/</u>	Special Drawing Rights <u>2/3/</u>	Foreign Currencies <u>4/</u> ESF	System	Reserve Position in IMF <u>2/</u>
<u>1996</u>						
September	75,509	11,050	10,177	19,449	19,412	15,421
October	75,558	11,050 p	10,226	19,334	19,431	15,517

1/ Valued at \$42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Holdings of Treasury Exchange Stabilization Fund (ESF) and Federal Reserve System. Beginning November 1978, these holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

p Preliminary

RR-1364

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE  
November 6, 1996

CONTACT: Office of Financing  
202/219-3350

AMENDED NOVEMBER QUARTERLY FINANCING ANNOUNCEMENT

In the Highlights section of the Quarterly Financing Announcement dated October 30, 1996, the following entries should be added to the "Due dates and CUSIP numbers for additional TINTs" line for the 30-year bonds:

May 15, 2025 --- 912833 LV 0  
November 15, 2025 --- 912833 LX 6  
May 15, 2026 --- 912833 LZ 1

All other particulars of the announcement remain unchanged.

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RR-1365

**AUCTION  
RESULTS**

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 7, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for \$19,387 million of 52-week bills to be issued November 14, 1996 and to mature November 13, 1997 were accepted today (CUSIP: 9127942W3).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.19%	5.48%	94.752
High	5.21%	5.50%	94.732
Average	5.20%	5.49%	94.742

\$5,000,000 was accepted at lower yields.  
Tenders at the high discount rate were allotted 4%.  
The investment rate is the equivalent coupon-issue yield.

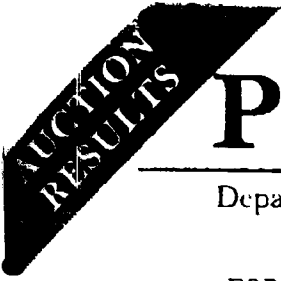
### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$57,496,160	\$19,387,160
Type		
Competitive	\$51,795,205	\$13,686,205
Noncompetitive	<u>700,955</u>	<u>700,955</u>
Subtotal, Public	\$52,496,160	\$14,387,160
Federal Reserve	5,000,000	5,000,000
Foreign Official Institutions	<u>0</u>	<u>0</u>
TOTALS	\$57,496,160	\$19,387,160

An additional \$734,200 thousand of bills will be issued to foreign official institutions for new cash.

5.02 - 94.924

RR-1366



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 7, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 30-YEAR BONDS

Tenders for \$10,000 million of 30-year bonds to be issued November 15, 1996 and to mature November 15, 2026 were accepted today (CUSIP: 912810EY0).

The interest rate on the bonds will be 6 1/2%. The range of accepted bids and corresponding prices are as follows:

	<u>Yield</u>	<u>Price</u>
Low	6.618%	98.470
High	6.625%	98.380
Average	6.619%	98.457

Tenders at the high yield were allotted 51%.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$26,841,353	\$10,000,139

The \$10,000 million of accepted tenders includes \$258 million of noncompetitive tenders and \$9,742 million of competitive tenders from the public.

In addition, \$1,470 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is \$400,000. Larger amounts must be in multiples of that amount.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE

November 12, 1996

**STATEMENT OF TREASURY SPOKESMAN HOWARD SCHLOSS**

Secretary Rubin spoke to Japanese Finance Minister Mitsuzuka this morning by telephone, and congratulated the Minister on his appointment and said this Administration looked forward to close cooperation with the new Japanese government on issues of mutual interest.

Minister Mitsuzuka outlined his government's financial reform proposals. Secretary Rubin said he welcomed the proposals.

Secretary Rubin said after the phone call, "The United States has supported for some time the broad objectives of deregulation and transparency in Japan's financial market. We look forward to learning more about the concrete proposals envisioned by the Japanese Government to further develop and open the Japanese financial market."

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RR-1368

*For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040*



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 12, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$14,015 million of 13-week bills to be issued November 14, 1996 and to mature February 13, 1997 were accepted today (CUSIP: 9127943Y8).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

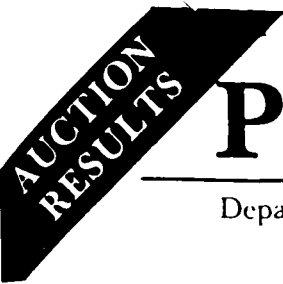
	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	4.99%	5.12%	98.739
High	5.02%	5.16%	98.731
Average	5.02%	5.16%	98.731

Tenders at the high discount rate were allotted 81%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
<b>TOTALS</b>	\$46,641,078	\$14,015,185
Type		
Competitive	\$40,872,601	\$8,246,708
Noncompetitive	<u>1,488,592</u>	<u>1,488,592</u>
Subtotal, Public	\$42,361,193	\$9,735,300
Federal Reserve	3,525,485	3,525,485
Foreign Official		
Institutions	<u>754,400</u>	<u>754,400</u>
<b>TOTALS</b>	\$46,641,078	\$14,015,185

5.00 -- 98.736    5.01 -- 98.734



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 12, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$14,079 million of 26-week bills to be issued November 14, 1996 and to mature May 15, 1997 were accepted today (CUSIP: 9127944J0).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.06%	5.26%	97.442
High	5.07%	5.28%	97.437
Average	5.07%	5.28%	97.437

Tenders at the high discount rate were allotted 43%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$53,873,865	\$14,079,059
Type		
Competitive	\$47,124,911	\$7,330,105
Noncompetitive	<u>1,187,054</u>	<u>1,187,054</u>
Subtotal, Public	\$48,311,965	\$8,517,159
Federal Reserve	3,600,000	3,600,000
Foreign Official		
Institutions	<u>1,961,900</u>	<u>1,961,900</u>
TOTALS	\$53,873,865	\$14,079,059

DEPARTMENT OF THE TREASURY

TREASURY



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EMBARGOED UNTIL 2:30 P.M.  
November 12, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$28,000 million, to be issued November 21, 1996. This offering will provide about \$1,525 million of new cash for the Treasury, as the maturing weekly bills are outstanding in the amount of \$26,475 million.

Federal Reserve Banks hold \$7,029 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,583 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED NOVEMBER 21, 1996<sup>1</sup>**

November 12, 1996

<u>Offering Amount</u> . . . . .	\$14,000 million	\$14,000 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 3Z 5	912794 4K 7
Auction date . . . . .	November 18, 1996	November 18, 1996
Issue date . . . . .	November 21, 1996	November 21, 1996
Maturity date . . . . .	February 20, 1997	May 22, 1997
Original issue date . . . . .	August 22, 1996	November 21, 1996
Currently outstanding . . . . .	\$13,019 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.<br>(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater.<br>(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders. |

Maximum Recognized Bid  
at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date



FOR IMMEDIATE RELEASE  
November 13, 1996

Contact: Michelle Smith  
(202) 622-2960

### RUBIN ANNOUNCES US/CHINA ECONOMIC COMMISSION MEETING

Treasury Secretary Robert E. Rubin on Wednesday announced he and Chinese Finance Minister Liu would co-host a US-China Joint Economic Commission (JEC) meeting November 18 and 19 in Washington, D.C., to discuss bilateral economic issues, including the structure and performance of the U.S. and Chinese economies.

The JEC provides both the United States and China an invaluable opportunity to learn from one another and to further our bilateral cooperation," Secretary Rubin said. "The growth of our economic relationship at all levels is evidenced by the broad range of U.S. and Chinese agencies taking part in the meetings."

Our agenda for the meetings will include discussions on recent economic performance and approaches to macroeconomic management, including the significance of the bilateral trade imbalance; financial market reform and supervision; and customs cooperation and tax issues," Secretary Rubin said.

Representatives from the Treasury, the office of the U.S. Trade Representative, the Council of Economic Advisors, the State Department, the Federal Reserve Board, the Securities and Exchange Commission and other U.S. government agencies will participate as part of the American delegation.

The Chinese delegation will include representatives from the Ministry of Finance, the State Planning Commission, the Committee on Restructuring the Economic System, the Ministry of Foreign Affairs, the Ministry of Foreign Trade, the State Economic and Trade Commission, the People's Bank of China and the China Securities Regulatory Commission.

A photo opportunity is planned for 1:30 p.m. Monday and a joint closing press conference is scheduled at 12:45 p.m. Tuesday in Treasury's Diplomatic Reception Room. Press without Treasury, White House, State or Congressional passes should contact Treasury's Office of Public Affairs at (202) 622-2960 for clearance by close of business Friday, November 15 with the following information: name, date of birth and social security number. This information may be faxed to Hortense Henderson at (202) 622-1999.

RR-1372

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# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 13, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 34-DAY BILLS

Tenders for \$13,217 million of 34-day bills to be issued November 15, 1996 and to mature December 19, 1996 were accepted today (CUSIP: 9127943S1).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.19%	5.29%	99.510
High	5.20%	5.30%	99.509
Average	5.20%	5.30%	99.509

Tenders at the high discount rate were allotted 38%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$61,367,850	\$13,217,310
Type		
Competitive	\$61,367,000	\$13,216,460
Noncompetitive	850	850
Subtotal, Public	\$61,367,850	\$13,217,310
Federal Reserve	0	0
Foreign Official		
Institutions	0	0
TOTALS	\$61,367,850	\$13,217,310

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.  
November 13, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES  
TOTALING \$30,750 MILLION

The Treasury will auction \$18,250 million of 2-year notes and \$12,500 million of 5-year notes to refund \$28,336 million of publicly-held securities maturing November 30, 1996, and to raise about \$2,425 million new cash.

In addition to the public holdings, Federal Reserve Banks hold \$475 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include \$3,842 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1374

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF  
2-YEAR AND 5-YEAR NOTES TO BE ISSUED DECEMBER 2, 1996

November 13, 1996

<u>Offering Amount</u> . . . . .	\$18,250 million	\$12,500 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	2-year notes	5-year notes
Series . . . . .	AM-1998	Q-2001
CUSIP number . . . . .	912827 2B 7	912827 2C 5
Auction date . . . . .	November 19, 1996	November 20, 1996
Issue date . . . . .	December 2, 1996	December 2, 1996
Dated date . . . . .	December 2, 1996	December 2, 1996
Maturity date . . . . .	November 30, 1998	November 30, 2001
Interest rate . . . . .	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield . . . . .	Determined at auction	Determined at auction
Interest payment dates . . . . .	May 31 and November 30	May 31 and November 30
Minimum bid amount . . . . .	\$5,000	\$1,000
Multiples . . . . .	\$1,000	\$1,000
Accrued interest		
payable by investor . . . . .	None	None
Premium or discount . . . . .	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

- Noncompetitive bids . . . Accepted in full up to \$5,000,000 at the highest accepted yield
- Competitive bids . . . . (1) Must be expressed as a yield with three decimals, e.g., 7.123%
- (2) Net long position for each bidder must be reported when the  
                                  sum of the total bid amount, at all yields, and the net long  
                                  position is \$2 billion or greater.
- (3) Net long position must be determined as of one half-hour prior  
                                  to the closing time for receipt of competitive tenders.

Maximum Recognized Bid

at a Single Yield . . . 35% of public offering

Maximum Award . . . . . 35% of public offering

Receipt of Tenders:

    Noncompetitive tenders . . . Prior to 12:00 noon Eastern Standard time on auction day

    Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . . Full payment with tender or by charge to a funds account at a  
Federal Reserve Bank on issue date



Embargoed until delivery at 2:15 PST.

Remarks as prepared for delivery

November 15, 1996

**THE TREASURY'S STUDY OF CREDIT UNIONS:  
SOME INITIAL THOUGHTS ON  
SCOPE AND APPROACH**

**Remarks of Richard S. Carnell  
Assistant Secretary of the Treasury  
for Financial Institutions**

**California Credit Union League  
Annual Meeting and Convention  
Anaheim, California**

**I. INTRODUCTION**

In a recently enacted bill to keep the government running during the next year, Congress required the Treasury Department to conduct a study of several issues relating to credit unions. I should note at the onset that we at the Treasury did not ask to do this study. Congress devised it and assigned it to us. But it's now the law of the land. We take it seriously and we'll carry it out conscientiously, energetically, and fairly. More about that in a moment.

Now the ink had been dry on the new law for barely three weeks when I got a letter from Chris Kerecman -- your Director of Regulatory and Congressional Affairs -- inviting me to speak to you about the study. I know Chris from his days at the National Credit Union Administration, and I have the highest regard for him. But my first thought was that it was too soon to be talking about the study. We're just starting work on it. We certainly don't claim to have the answers now. And we'd rather be listening than talking.

RR-1375

But Chris urged me to go ahead and speak to you. He told me that credit unions were strongly interested in, and concerned about, the study. He said that it would be helpful for me to share some thoughts -- however preliminary -- on what the study involves and how we will go about conducting it.

## **II. THE STATUTORY STUDY REQUIREMENT**

### **A. Scope of the Study**

Let me begin by talking about what Congress has directed the Treasury to do in the study.

Section 2606 of the Omnibus Appropriations Act for 1997 requires the Secretary of the Treasury to conduct a study and evaluation of three major topics relating to credit unions. The first topic involves the National Credit Union Share Insurance Fund. The second involves the supervision and financial health of corporate credit unions. And the third involves the NCUA's regulations. The study is due September 30, 1997. We're to conduct it in consultation with the NCUA, the FDIC, and Treasury's Office of the Comptroller of the Currency, which regulates national banks.

Let me now take a more specific look at the three topics I listed a moment ago. The first is the National Credit Union Share Insurance Fund. Congress has directed us to examine two specific issues relating to the Fund. To begin with, we're to study whether the 1 percent deposit that credit unions have made into the Fund should continue to be treated as an asset on credit unions' books, and thus as part of their equity capital -- or whether credit unions should, instead, expense it. We're to study whether the Fund should be administered by someone other than the NCUA, and what would be the implications of such a change. More generally, Congress also directed us to evaluate the NCUA's oversight of the insurance fund.

Second, Congress has required us to evaluate the nation's ten largest corporate credit unions. We're to do this "in cooperation with appropriate employees of other federal agencies with expertise in the examination of federally insured financial institutions." We're to look at corporate credit unions' investment practices. We're to examine their "financial stability, financial operations, and financial controls." And we're to review how the NCUA supervises them.

Third, Congress has instructed us to study the NCUA's regulations. Let me read you the exact language on this point. "The Secretary . . . shall conduct a study and

evaluation of . . . the regulations of the [National Credit Union] Administration." Now you could conceivably read that language as calling for a study of all the NCUA's regulations, which occupy 250 pages in the Code of Federal Regulations. But quite a few of those regulations, however appropriate in themselves, have little connection to anything else even touched on in the law calling for the study. To take only a few examples, the NCUA has regulations on adjudicative hearings, advertising, the Community Development Revolving Loan Program, flood insurance, the Freedom of Information Act, group purchasing activities, investigations, money laundering, pension plan custodians, preserving records, and suing the government for property damage, personal injury, or death. Did Congress really intend us to delve into all of them? I think not. Instead, I'm inclined to believe that the best approach would be for us to review the regulations dealing with corporate credit unions, the National Credit Union Share Insurance Fund, and the safety and soundness of credit unions.

## **B. Our Approach**

Now that I've told you in general terms *what* we plan to cover, let me tell you *how* we plan to do it.

I think a few simple principles should guide our approach: Be fair and objective. Be thorough and rigorous. Be open and inclusive.

Let me emphasize that we come to this study with open minds, open ears, and an open door. We recognize that our work has just begun. And we believe that one way of making sure we do a good job is to talk with a wide range of people about the issues we must cover in the study.

I like to think we've already started the process of listening. We have already had very constructive initial meetings with the NCUA's Board of Directors and its senior staff. We appreciate their willingness to give us their perspective as we study these issues. We are currently scheduling meetings with CUNA and NAFCU. And we also look forward to meeting as well with other interested parties, including other financial institutions.

We plan to visit some corporate credit unions. And we want to be sure to talk with people like you -- people from credit unions large and small, rural and urban. We want to understand your perspective on the issues at stake in the study. Indeed, one appeal of your invitation was the opportunity to have a series of smaller meetings earlier



today with a wide range of credit union officials. I certainly hope to continue these types of meetings.

### III. CREDIT UNIONS AND THE IDEAL OF SELF-AUDIT AND RENEWAL

We at the Treasury want to set high standards for our work on the study. I'd like to close now by taking a few minutes to reflect on an important credit union ideal: the ideal of self-audit and renewal. This is a high standard that you, as credit unions, have set for yourselves. And there's a striking expression of this in the "Statement of Credit Union Operating Principles," a document endorsed by CUNA and adopted by the World Council of Credit Unions. This statement calls for all credit unions to pursue self-audit and renewal. More specifically, it says: "Credit union management and staff should regularly ask the question, 'How have we acted like (or unlike) a credit union today?'"

This is *not* the sort of statement you see just anywhere. It's a call to reflection and renewal. It's a call to examine what you do -- and how you operate -- in light of credit union objectives.

The concept of self-audit carries with it an openness to change. Think back to that pair of questions: How have we acted *like* a credit union today? How have we acted *unlike* a credit union today? The whole idea of asking such questions is to try to rise above old habits and first reactions -- the easy, comfortable, usual way of doing things.

I believe that if self-audit and renewal is your goal, you don't just brush off new ideas. You look at what can best help you realize your objectives.

I can't tell you today what conclusions we'll draw in our forthcoming study. I can tell you that we'll approach it objectively. We'll be evenhanded in what we do. Whatever the outcome may be, whether you agree with it, disagree with it, or even if you're indifferent, I hope you'll look at this study -- and the process of sharing with us your views on it -- as an opportunity to reflect on where you as credit unions really want to go.

I hope that your own desire for self-audit will help us to identify improvements that will benefit credit unions in the years ahead. Surely that's a tall order. But it's one that is achievable, and it's a reasonable goal to set for oneself.

Thank you for the opportunity to speak here today. I hope you will continue your excellent work in communities across the state of California.

TREASURY



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**Delivered Remarks  
Bretton Woods Committee Annual Meeting  
November 15, 1996  
Secretary Robert Rubin**

I am delighted to be here with you. I think I am right in saying that the first public speech I gave after the President announced that I was going to be the new Secretary of the Treasury two years ago was to this very group. The issues I spoke about then are the issues I am going to speak about now, because our commitment to this is the same and unwavering.

From the beginning of the Administration, the President has spoken -- I think eloquently -- about the need and importance for U.S. leadership in the global economy because of the importance of that leadership to our economic and our national security interest. One of things that struck me about then-Governor Clinton when I first met him, and talked to him about economic issues, was that he had really internalized the importance of the global economy and it was really no different from the investment bankers I dealt with on a daily basis. Although the governor of a small state in the South, he understood that the world had changed; he understood that our economic success was going to be a function of a healthy global economy, and the United States was truly the only nation in the world that could provide leadership in the global economy. And that clearly has been his position since he's been President of the United States. We've had a coordinated strategy which has enabled us to promote our interests in the global economy and promoting global growth and reform in the global economy, which is also in our interest.

Opening markets and expanding trade have been a large part of this effort, and the most visible part of the effort. Nafta, GATT and scores of trade agreements have been the result of this strategy. At the same time that we've had trade agreements, the Administration has vigorously worked to help U.S. companies sell abroad, which I think is an appropriate function of government. In the President's second term, we will continue to pursue an active trade agenda. Even during the campaign, when trade was not a particularly popular subject politically, the President spoke about free and fair trade and opening markets around the world. In the second term, we will work to continue trade liberalization in Latin America and Asia particularly.

RR-1376



Important steps can be taken without Congressional action, they can be taken by the Executive himself, for example, trade agreements like the bilateral financial services agreement we have with Japan, customs simplification. On the other hand, major agreements, will almost always require Congressional approval. In order to enter into effective negotiations of major agreements, a predicate is fast track legislation. As you know, in the recent past, getting a renewal of fast track legislation has been hung up over the issues of environmental and labor standards. To be sure that is a very difficult challenge which lies ahead. I believe it can be done, but it can only be done if the advocates of both sides of the issues are willing to move from the purity of their positions and work together to find common ground.

That said, there is another part to our strategy in the global economy, and one which receives far less attention in the public domain, but which is absolutely vital, and that is promoting growth and reform in the developing world. Bringing developing countries into the economic mainstream raises living standards, promotes political stability -- and it increases markets for U.S. exports. International financial institutions, which your group is so focused on, the World Bank, the IMF, and sister banks to the World Bank, are absolutely central to that effort.

I think relatively few Americans have a sense of how important developing nations have become to our economic well-being. The countries of the developing world already are the fastest growing U.S. export market, representing about 40 percent of our total exports. Developing countries in Asia alone account for 23 percent of world GDP, compared to the United States which is now at 21 percent of world GDP. Those Asian developing nations have had imports grow at an average annual rate of ten percent over the past two decades and imports this year will aggregate approximately \$1.0 trillion. That is an enormous market. Other parts of the developing world also present exciting potential. Latin America is the second fastest growing economic region in the world. Central and Eastern Europe and the former Soviet Union are 25 countries with more than 400 million people. Each of these areas are already major markets, and each of these areas are, in their totality, the markets of the future for our country.

The President has strongly promoted private sector focus on the emerging markets. The late Secretary of Commerce, Ron Brown, had as his central focus in his efforts, an emerging market strategy. In addition, we have acted to further growth and reform in the developing and transitional world through the international financial institutions. However, without change and innovation, any institution will ultimately lose its edge. In that spirit, we have worked unceasingly for change and innovation in the international financial institutions. I believe there are three steps which should continue to guide us in that effort:

First, and I would say foremost, we must maintain U.S. leadership by meeting our financial commitments to the financial institutions. We are the only major nation in the world that is in arrears to the World Bank. We are in arrears to several sister banks. That must not be allowed to continue. The Administration has been committed and continues to be committed to working with the Congress to obtain the resources necessary to fund these key programs and institutions, always working within the constraints of our balanced budget goals. But if past is

prologue, obtaining Congressional support will be very difficult. Difficult, but doable. I have spent an enormous amount of time personally going up to the hill, working with Congress toward these ends. As I said a moment ago, it is a very difficult undertaking in these circumstances, but, in my view, if we all work together, we in the Administration, and you, who understand these issues so well, then it is doable.

There is, unfortunately, very little recognition in the public domain in this country, or in Congress that these institutions are not charities, but rather are critically important to our economic and national security interests. Multilateral development banks have worked to strengthen the economies of developing countries, which, in turn, results in wider markets for U.S. goods, as I mentioned a moment ago. For example, in 1995 U.S. exports to the 79 countries eligible for International Development Assistance aggregated something like \$25.5 billion. And in that same period, IDA graduates imported from the United States roughly \$60 billion worth of goods and services. At the same time, the IMF has contributed substantially, working with certain of our key U.S. trading partners, in this hemisphere, for example, Chile, Argentina and most notably, Mexico.

In the time I have been Secretary of the Treasury, one of things that I have done that has been most meaningful to me is to visit multilateral development bank projects in India, Indonesia, the Philippines, Argentina, and Brazil. I've seen these institutions working at the ground level. I remember in the Philippines, meeting a woman who had received a micro-enterprise loan and had bought some sort of little taxi and that opportunity had dramatically changed her life and the life of her family. In India we visited a very, very, poor village that had learned how to conserve water in a parched area, and, as a consequence, dramatically improved the standard of living. We can replicate those kind of examples across the developing and transitional world. They are not only having an enormous effect on those people, but, as I said a moment ago, they are creating markets for our goods and services and enhancing political stability enormously, which is in our national security interest.

This committee or organization has played a major role in obtaining resources for the Bretton Woods institutions in the past. I know Henry says you are not a lobbying organization, and I recognize that, but it is also true in my judgement that we are at a turning point with respect to American involvement with these institutions and you are a unique group of people. You have an understanding of the importance of these institutions, and you also have the ability to be effective in helping obtain the necessary support. I would suggest that there may not have been a more important time for you to get involved in that effort than today and that we work in the months ahead to keep our commitments and to help fund these vitally important institutions.

The second step we must take to strengthen the international financial institutions is to make them more effective in combating corruption throughout the developing and transitional world.

We have stressed increased transparency. We have stressed a focus on encouraging good governance. Corruption, and the more general criminality it supports, is a major impediment to political stability and growth. When I go around to these countries and visit the American

Chamber of Commerce, I hear over and over again how much of an impediment that kind of activity, corruption, is.

Jim Wolfensohn, in my judgement, deserves enormous credit in focusing on this issue, as does Michael Camdessus at the IMF. The challenge now is to develop practical mechanisms for combating corruption in these parts of the world.

Third, we must continue, as Henry suggested, to focus on the appropriate roles of the international financial institutions, the governmental institutions, and the private sector.

Clearly, we are in a new world with a global economy and also the availability of large amounts of private sector capital for developing countries. The dimension of the capital markets did not exist ten years ago. The private sector can meet many of the capital needs in these countries and to the extent that they do meet these needs, they can, in my view at least, meet them more efficiently than public sector capital and, more importantly, free up the scarce capital they have in their financial institutions for education, health care, and the other areas which the private sector will not, by its nature, get involved in.

However, the ability to attract private sector capital, even in the more advanced developing countries, has been hampered by a lack of developed capital markets and a shortage of sophisticated financial instruments, as well as, in certain of these countries, continued uncertainty about the commitments to economic and political reform.

Multilateral development banks play four critical roles in attracting private sector capital to developing and transitional countries. First, they help create an overall macro economic and structural policy environment that is conducive to private sector activity. Second, they help build the necessary financial capital market regulatory and legal institutions through lending and technical assistance. Thirdly, the multilateral development banks can provide direct financing for parts of projects that will then attract private sector capital for the other parts. They can also make equity investments, and they can provide guarantees or insurance. Finally, international financial institutions play a critical role in areas where the private sector will not, by its nature, participate in, which is health care, women's programs, education, promoting the rule of law and the other underpinnings of the economy and society that are so important to private sector activity.

In the poorest developing nations, the attraction of private sector capital is a particular problem. Africa is clearly the most difficult part of the world in this respect for many reasons. At least one reason is the last two or three decades, the public sector, the governments, have become vastly involved in all aspects of the economy. And I'll tell you, there is little attention paid to the underpinnings of economic activity, from the development of capital markets to education and health care. An example of a type of program that I think would be particularly suited for attracting private sector activity in the poorest nations is micro enterprise lending, the kind of thing I mentioned before with the example in the Phillippines. There is a micro enterprise

summit that is going to be held in February and that I am going to have the opportunity to attend. We will attempt there to further the development of these programs around the world in the poorest countries.

Another area in which the World Bank can increase activity in order to attract private sector capital to the poorest nations, at least in my judgement, is to expand the current guarantee program. I believe that guarantees and other kinds of more sophisticated financial mechanisms are an effective way to leverage the World Bank capital and maximize the infusion of private sector capital into these poorer nations.

Let me close, if I may, by discussing a subject I alluded to earlier, in my view, a subject absolutely critical to the economic well being of this country, and that is the importance of building a strong domestic constituency to continue U.S. engagement and leadership in the global economy.

Many observers feel that there is a growing resistance in this country, and, for that matter, many of the other nations in the developed world, to engagement in the global economy. There is a considerable question of whether Nafta or GATT could have been passed in the environment that now exists. When we came forward with our Mexican support program, and that program was designed to help Mexico, but to help Mexico because it was in our economic interest and our national security interest to help Mexico, that Mexican support program was met with vigorous Congressional, Republican opposition. And in the primary elections, there was, as you well know, a candidate who argued vigorously for protectionism, and found a distressingly large audience for that argument. On the other hand, the two major candidates -- President Clinton and Senator Dole -- took the internationalist position. The lesson that I at least draw from all this is that there is great unease in the American public about American engagement in the global economy. And that there is a large segment of the public -- maybe not a majority, hopefully not a majority, but nevertheless, a large segment -- that believes international financial institutions and trade agreements don't work in their interest. I know, and all of you know, that simply is not so. But I also believe we ignore these views at our peril.

I said a moment ago, and I'll say it again, this organization, and the members of this organization are in the rare position of having a sophisticated understanding of the importance of engagement and leadership by this country in the global economy to our well-being, combined with the ability to actually to do something with that understanding, to work with your employees to promote a better understanding both with the American public and in Congress the critical importance of our continuing to be effective leaders, continuing to be effectively engaged. I think it is absolutely critical that you work to spread that message. I strongly urge that you do so.

Let me close by saying that I believe we need to convey to all Americans that one of the great lessons of the 20th century is that withdrawal from international affairs cannot work. When we withdraw, we suffer; when we engage, we prosper. I thank you and I look forward to working

with all of you in the months ahead in this critically important area.



**Robert E. Rubin**  
**Remarks for Opening Plenary**  
**U.S.-China Joint Economic Committee**  
**November 18, 1996**

I would like to welcome all of you to this meeting of the U.S.-China Joint Economic Committee.

As I look around the room, I see representatives from a broad range of agencies in our government. This reflects a growing and increasingly complex economic relationship between the United States and China -- as well as the importance President Clinton places on improving relations between our two nations. And the first step toward improving relations is to improve the level of understanding between us. Meetings such as this one are critical to that effort, just as the G-7, APEC and other similar meetings provide better understanding amongst the participants in those groups.

U.S.-China economic relations offer immense opportunities for both nations. The United States and China are among the largest economies in the world; China's weight in the global economy is growing year by year; and as that weight increases, our two nations will almost inevitably have greater and greater economic impact on each other.

Our economic ties are already increasing at substantial rates. Bilateral trade has grown at an average of 23 percent over the past five years alone, while U.S. direct investment into China was some \$5 billion in 1995.

Along with the opportunities which these growing links offer, difficult challenges remain in strengthening our economic ties. We are fundamentally different in many respects, with different approaches to economic development, macroeconomic management, and business regulation.

And there are specific areas of disagreement between us. But, that is always true between any two large nations. The key is not to let individual disagreements affect the overall relationship, and to work constructively to resolve disagreements whenever possible. By working together, and developing a deeper understanding of each other's economic views -- both as to general economic policy and as to specific issues in which we may have differences -- we can move forward in a pragmatic way in addressing the issues which face us.

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As examples, for China, I believe that process will improve prospects for WTO accession -- which the U.S. supports on commercially meaningful terms. For the United States, a key issue is the magnitude of our bilateral trade deficit, and the policies that affect it.

The kind of dialogue we are having today and tomorrow is unique and particularly valuable in the effort of building understanding.

Representatives of the U.S. and Chinese governments see each other often -- but usually across a negotiating table or in the context of some kind of crisis that requires an immediate solution. Rarely do we have the chance to sit down and discuss where our two economies are going and the obstacles we each face, or to relate advice that we have gleaned from our respective experiences: China, from its own remarkably successful experiences in reforming its economy and, more broadly, from its Asian perspectives, and the United States from its experiences with its own economy and in working with other countries involved in economic transformation. Understanding is the basis for cooperation, and cooperation, in turn, the basis for a sound relationship.

We have carved out an ambitious three-part agenda for the next two days. First, we will have the opportunity to hear both sides review recent economic performance and approaches to macroeconomic management, structural issues, and our bilateral trade balances.

Here in the U.S., we have achieved a six-year investment-led economic expansion with low inflation -- the first since the 1960s -- made possible by substantial improvements by the private sector in productivity and competitiveness, and by serious deficit reduction in the public sector. And China has turned a corner in economic performance. China has had fifteen years of remarkably high rates of growth and now has accomplished a soft landing in 1995, all of which bodes well as we move forward with the challenges that lie ahead.

The U.S. delegation is eager to discuss with China its next steps in introducing market-oriented forces into its economy.

Second, we will delve into financial market reform and supervision. Passage in China of a central bank law and commercial bank law last year were milestones in the development of China's banking sector, and we look forward to discussing the ramifications with our colleagues from the People's Bank of China.

Finally, we will have an opportunity to get at some specific issues that don't fit into other categories, for example, customs cooperation, certain tax matters, and financial crime -- an area of cooperation endorsed by the APEC Finance Ministers Group.

This agenda offers a valuable opportunity for both nations -- both to learn and to further bilateral cooperation. I urge members of both delegations to take full advantage of this unusual opportunity in the two days of discussion before us.

Before I turn the podium over to my co-chair, Finance Minister Liu, I'd like to introduce key members of the U.S. delegation who will be leading some of the discussions.

I would now like invite Minister Liu to make his opening statement.

AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 18, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$14,131 million of 13-week bills to be issued November 21, 1996 and to mature February 20, 1997 were accepted today (CUSIP: 9127943Z5).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.01%	5.14%	98.734
High	5.03%	5.16%	98.729
Average	5.03%	5.16%	98.729

Tenders at the high discount rate were allotted 36%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$52,542,229	\$14,131,009
Type		
Competitive	\$47,034,532	\$8,623,312
Noncompetitive	<u>1,429,633</u>	<u>1,429,633</u>
Subtotal, Public	\$48,464,165	\$10,052,945
Federal Reserve	3,528,664	3,528,664
Foreign Official		
Institutions	<u>549,400</u>	<u>549,400</u>
TOTALS	\$52,542,229	\$14,131,009

5.02 - 98.731

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AUCTION  
RESULTS

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November 18, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$14,111 million of 26-week bills to be issued November 21, 1996 and to mature May 22, 1997 were accepted today (CUSIP: 9127944K7).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	5.06%	5.26%	97.442
High	5.07%	5.28%	97.437
Average	5.07%	5.28%	97.437

Tenders at the high discount rate were allotted 37%.  
The investment rate is the equivalent coupon-issue yield

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$50,760,469	\$14,111,289
Type		
Competitive	\$42,768,495	\$6,119,315
Noncompetitive	<u>1,176,674</u>	<u>1,176,674</u>
Subtotal, Public	\$43,945,169	\$7,295,989
Federal Reserve	3,500,000	3,500,000
Foreign Official		
Institutions	<u>3,315,300</u>	<u>3,315,300</u>
TOTALS	\$50,760,469	\$14,111,289

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**Statement  
Press Conference  
U.S.-China Joint Economic Committee  
Secretary Robert Rubin  
November 19, 1996**

I'd like to make a brief statement and then open it up for questions.

We have just concluded two days of highly valuable meetings with representatives of the Chinese government through the U.S.-China Joint Economic Committee. These meetings have provided rare opportunities to develop a better understanding of each other's economic views -- both as to general economic policy and as to specific issues where we have differences. Two large nations, such as China and the United States, having complex and dynamic economies -- and increasingly linked economically -- will inevitably have disagreements over specific issues. The key is not to let individual disagreements affect the overall relationship, and to work constructively to resolve disagreements whenever possible. The prerequisite for resolving issues is to understand each other's perspectives and our meetings today and yesterday were most useful toward that end. The China/U.S. relationship would benefit greatly from frequent meetings of this kind between officials of our two countries in many areas.

To give you just a few examples of the issues covered: We discussed general macroeconomic performance, including the U.S.' strong recent economic performance, and China's remarkable 15 years of high rates of growth. We also discussed how each of us develops and executes our respective budgets, and how that affects economic performance. We discussed our bilateral trade imbalance, our common interest in cooperating in combating financial crime, the free flow of market data in China, the low savings rate in the United States, China's new approach to curb bank financing for money losing state enterprises, and our respective views on human rights issues in China.

We also agreed on some specific matters, which are listed in the communique, to carry our relationship forward. For example, we agreed to move forward our discussions to conclude a customs mutual assistance agreement. We agreed to intensify various forms of technical

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TREASURY



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**Statement  
Press Conference  
U.S.-China Joint Economic Committee  
Secretary Robert Rubin  
November 19, 1996**

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cooperation in taxation and in fighting financial crime. I was also very encouraged from my conversation with the Chinese authorities on the status of implementing the program for foreign banks to conduct local currency business in Pudong, Shanghai. The authorities are now considering applications and I was told that progress is expected to be made in the very near future. And we also agreed to consult on an ongoing basis with respect to financial market development and access.

This is by no means an exhaustive list, but does illustrate the constructive dialogue in which we have engaged over the last two days. Now our challenge is to sustain the spirit of understanding and cooperation we have had at this meeting of the JEC, and use the enhanced understanding from this and other similar meetings to move forward on issues such as the trade imbalance, to the extent it is a result of either Chinese or American policies; arriving at commercially meaningful terms on which China can enter the World Trade Organization; and financial market reform and supervision.

To conclude, each of our nations has a great stake in a mutually beneficial economic relationship, but that takes systematic hard work over the long run, both to increase our understanding of each other's perspectives and to deal with individual issues. Now, I would be happy to answer any questions.

**COMMUNIQUE**  
**Ninth Session of the U.S.-China**  
**Joint Economic Committee**  
**Washington, DC**  
**November 19, 1996**

At the invitation of Treasury Secretary Robert Rubin, Finance Minister Liu Zhongli led an official delegation to the United States to co-chair the ninth session of the U.S.-China Joint Economic Committee (JEC). The JEC provides an integrated framework for addressing economic issues of mutual interest between the United States and the People's Republic of China, and an opportunity for senior economic officials from both sides to exchange views. In addition, Minister Liu and members of his delegation met with Vice President Al Gore.

The two Ministers noted the importance of building strong ties between two of the world's major economies, particularly in the context of continued strong economic growth in both the U.S. and China and increasing trade and investment flows. The two Ministers noted that a flowering of the U.S.-China economic relationship should be encouraged by an improvement in the overall U.S.-China relationship.

Discussions during the two-day meeting focused on:

- **Macroeconomic Policy and Performance** -- the policies that have brought growth to both countries and the challenges that lie ahead for each. For China, particular attention was paid to the structural reforms needed to ensure the development of a market-based system, while for the U.S., continued progress in reducing the federal deficit, which has contributed to a favorable interest rate environment, was cited as a key objective. The origins and issues related to the bilateral trade imbalance were discussed.
- **Financial Market Reform and Supervision** -- changes in banking and securities markets, and the regulatory environment were reviewed. Establishing a more efficient and competitive financial sector was seen as vital to more sustainable and orderly economic development. China's efforts to deepen financial system reform and strengthen financial regulation and supervision toward that end were discussed. On the U.S. side, particular attention was paid to changes in the banking sector -- prompt corrective action and strengthening safety and soundness -- in line with the creation of broader business opportunities for financial services providers.
- **Economic Cooperation** -- discussion of cooperation in such areas as customs, tax administration, and fighting financial crime. Discussion centered on the importance of strengthening and broadening cooperation on technical areas that contribute to the overall economic relationship.

In addition to discussion of important issues, progress was also made in deepening the U.S.-China economic relationship and increasing bilateral cooperation. Secretary Rubin, on behalf of the U.S. delegation, marked several achievements in this regard:

- Noting the recent visit of SEC Chairman Levitt to Beijing, and the 1994 Memorandum of Understanding between the U.S. Securities and Exchange Commission and the China Securities Regulatory Commission, Secretary Rubin announced additional cooperation to develop programs addressing market oversight,



market disclosure and protection of investors -- in the context of China's efforts to promote the development of sound and efficient capital markets.

- Welcoming the progress that China has made in improving its tax system to date, Secretary Rubin stated that the U.S. and China agreed to technical cooperation in areas related to tax administration -- with a view to promoting revenue collection and contributing to the business environment.
- Secretary Rubin noted that China is working to restructure its financial system and strengthen financial supervision with a view toward bringing its consolidated supervision in line with international standards. Achieving international standards will facilitate consideration by the U.S. authorities to allow Chinese banks to operate branches within the U.S. under U.S. law.
- Noting the APEC Finance Ministers' endorsement of cooperation in the fight against financial crimes, the two sides agreed on enhancing cooperation in this area by establishing normal channels of contact between designated institutions of both countries. The two sides also agreed to increase the exchange of information, mutual training, and technical cooperation.

Minister Liu, on behalf of the Chinese delegation, announced several developments:

- Highlighting the significant strides China has taken to reform its foreign exchange system and make the currency convertible on the current account, Minister Liu announced China's plans to achieve current account convertibility by year's end.
- Minister Liu announced that China is in the process of considering the applications of foreign banks to conduct, on a trial basis, local currency business in Pudong, Shanghai.
- Minister Liu indicated that China will continue to phase in the participation of foreign banks into the Chinese financial system in steps. He noted the recent decision to approve applications for branch licenses from U.S. banks seeking to do business in Beijing and Shanghai.
- Highlighting the importance of cooperation and mutual assistance in customs matters, Minister Liu announced that China's Customs Administration would move forward on discussions with the U.S. Customs Service with a view toward concluding a customs mutual assistance agreement.

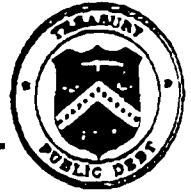
The two Ministers welcomed closer government-to-government ties and encouraged the exchange of visits between the economic agencies of the two countries. They also agreed to hold the next session of the JEC in Beijing.

Participation on the U.S. side included representatives from the Treasury, the Federal Reserve Board, the Securities and Exchange Commission, the Office of Management and Budget, the Council of Economic Advisors, the Office of the U.S. Trade Representative, the State Department, and the Department of Commerce. The Chinese delegation included representatives from the Ministry of Finance, the People's Bank of China, the State Planning

Commission, the State Economic and Trade Commission, the Ministry of Foreign Affairs, the Ministry of Foreign Trade and Economic Cooperation, the State Administration of Taxation, the Customs General Administration, the State Administration of Foreign Exchange, and the China Securities Regulatory Commission.

AUCTION  
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# PUBLIC DEBT NEWS



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November 19, 1996

CONTACT: Office of Financing  
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## RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for \$18,255 million of 2-year notes, Series AM-1998, to be issued December 2, 1996 and to mature November 30, 1998 were accepted today (CUSIP: 9128272B7).

The interest rate on the notes will be 5 5/8%. All competitive tenders at yields lower than 5.662% were accepted in full. Tenders at 5.662% were allotted 29%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 5.662%, with an equivalent price of 99.931. The median yield was 5.640%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.580%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$38,440,269	\$18,254,594

The \$18,255 million of accepted tenders includes \$928 million of noncompetitive tenders and \$17,327 million of competitive tenders from the public.

In addition, \$1,950 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$285 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.  
November 19, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$28,000 million, to be issued November 29, 1996. This offering will provide about \$1,875 million of new cash for the Treasury, as the maturing weekly bills are outstanding in the amount of \$26,119 million.

Federal Reserve Banks hold \$7,435 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$5,980 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1383

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED NOVEMBER 29, 1996

November 19, 1996

<u>Offering Amount</u> . . . . .	\$14,000 million	\$14,000 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	90-day bill	181-day bill
CUSIP number . . . . .	912794 4A 9	912794 2Q 6
Auction date . . . . .	November 25, 1996	November 25, 1996
Issue date . . . . .	November 29, 1996	November 29, 1996
Maturity date . . . . .	February 27, 1997	May 29, 1997
Original issue date . . . . .	August 29, 1996	May 30, 1996
Currently outstanding . . . . .	\$12,067 million	\$19,327 million
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

Maximum Recognized Bid at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 1 PM EST  
November 20, 1996

Statement by Treasury Secretary Robert E. Rubin

I fully support the action today by the Comptroller of the Currency to approve a final version of Part 5 of the OCC's regulations. It provides an orderly, prudent and public process for the OCC to decide on applications for bank operating subsidiaries that seek to offer new financial products and services that are incidental to banking, while at the same time establishing prudential safeguards to protect the bank from additional risk. This rule streamlines the application process for banks seeking to make changes in their organizational structure, while at the same time increasing opportunities for public participation in decisions on the most significant applications.

Allowing banks to diversify their financial service activities will reduce risk and strengthen the banking system over the long term, while promoting competition that lowers costs for consumers and makes financial products and services more widely available. The revised rule establishes a regulatory process that permits banks to keep pace with marketplace developments in a safe and sound manner within the bounds of existing law.

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RR-1384



AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 20, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for \$12,504 million of 5-year notes, Series Q-2001, to be issued December 2, 1996 and to mature November 30, 2001 were accepted today (CUSIP: 9128272C5).

The interest rate on the notes will be 5 7/8%. All competitive tenders at yields lower than 5.950% were accepted in full. Tenders at 5.950% were allotted 42%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 5.950%, with an equivalent price of 99.680. The median yield was 5.910%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.850%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$35,820,785	\$12,504,325

The \$12,504 million of accepted tenders includes \$310 million of noncompetitive tenders and \$12,194 million of competitive tenders from the public.

In addition, \$1,320 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$190 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

## DEPARTMENT OF THE TREASURY

TREASURY  NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

**FOR IMMEDIATE RELEASE**

November 26, 1996

CONTACT: Darren McKinney

(202) 622-2960

**CLINTON PRESENT AT SIGNING OF U.S.-THAI INCOME TAX CONVENTION**

The Treasury Department today announced that President Clinton observed the signing of an income tax convention by U.S. Ambassador to Thailand William Itoh and Thai Foreign Minister Amnuay Viravan in Bangkok. This is the first income tax convention between the United States and Thailand and is an important achievement in the Administration's broad strategy of expanding the U.S. tax treaty network with major trading partners in Southeast Asia. The Convention will enter into force after the countries have exchanged the instruments of ratification.

"Today's signing reminds us that governments do not create wealth, but governments can create the climate in which our workers, our entrepreneurs, our investors and business people can have a free and unfettered opportunity to thrive," said President Clinton.

The proposed Convention generally follows the pattern of the U.S. Model treaty, provisions of which have been included in many recent U.S. treaties with other developing countries. There are, however, variations that reflect particular aspects of Thai treaty policy, additional accommodations for U.S. and Thai law, and U.S.-Thai economic relations.

**Rate Provisions**

Although the withholding rates under the proposed Convention are generally higher than those in the U.S. Model and in many recent U.S. treaties with OECD countries, the proposed rates are generally lower than those in many recent Thai treaties.

Under the proposed Convention, direct investment dividends are subject to taxation at source at a 10-percent rate, and portfolio dividends are taxable at a 15-percent rate. The proposed Convention requires a 10-percent ownership threshold for application of the 10-percent tax rate.

The proposed Convention provides for a maximum 15-percent rate of tax at source on most interest payments. However, interest paid by any financial institution, including an insurance company, and interest earned on trade credits is limited to a 10-percent rate of tax at source. In addition, interest earned on government debt, including debt guaranteed by government agencies (e.g., the U.S. Export-Import Bank) is exempt from tax at source.

RR-1386

(more)

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*For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040*

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Copyright royalties (including software) are subject to a 5-percent tax at source. Royalties for the right to use equipment are subject to an 8-percent tax at source. Royalties for patents and trademarks are subject to a 15-percent tax at source.

Standard U.S. anti-abuse rules are provided for certain classes of investment income. Dividends paid by non-taxable conduit entities, such as U.S. Regulated Investment Companies and Real Estate Investment Trusts, are subject to special rules to prevent the use of these entities to transform what is otherwise high-taxed income into lower-taxed income. Excess inclusions with respect to residual interests in Real Estate Mortgage Investment Conduits are denied the benefits of the reduced rate of tax at source on interest.

Allowances similar to those under some U.S. treaties with developing countries are made for taxation of income from the performance of personal services. But the proposed Convention grants a taxing right to the host country that is broader than that in the OECD or U.S. Models.

### **Capital Gains**

The taxation of capital gains under the proposed Convention does not follow the normal pattern. Like a few other treaties, it allows gains to be taxed by both countries under the provisions of their respective internal law.

As with recent U.S. treaties and the U.S. and OECD Models, the proposed Convention provides generally for the taxation by the first country of the business profits of a resident of the second only when such profits derive from a permanent establishment located within the first country. The proposed Convention, however, grants rights to tax business profits that are somewhat broader than those found in the U.S. and OECD Models.

The proposed Convention preserves the U.S. right to impose its branch tax on U.S. branches of Thai corporations. The proposed Convention will also accommodate a provision of the 1986 Tax Reform Act that attributes to a permanent establishment any income earned during the life of the permanent establishment, but deferred and not received until after the permanent establishment has ceased to exist.

### **Air Carriers and Shipping**

The proposed Convention, consistent with current U.S. treaty policy, provides for exclusive residence-country taxation of profits from international carriage by aircraft. This reciprocal exemption also extends to income from the rental of aircraft if the rental activity is incidental to the operation of aircraft by the lessor in international traffic. However, income from the international operation of ships (including rentals that are incidental to such operations) is taxed at one-half of the tax rate otherwise applicable. Income from the use or rental of containers that is incidental to the operation of ships or aircraft in international traffic is treated the same as the income from the operation of the ships or aircraft (*i.e.*, it is exempt if incidental to aircraft operations, and taxed at half of the rate otherwise applicable if incidental to the operations of ships). This deviation from the preferred U.S. position regarding the taxation of shipping profits, which is suggested as an option in the U.N. Model, was necessary to accommodate Thailand's long-standing policy on this issue.

(more)

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The United States and Thailand have agreed to exchange notes under which, if Thailand grants any other country more favorable treatment on income from the operation of ships in international traffic, then negotiations will be reopened to extend such favorable treatment to the United States. Other income from the rental of ships or aircraft and from the use or rental of containers is treated as business profits under Article 7. As such, these classes of income are taxable only in the country of residence of the beneficial owner of the income unless the income is attributable to a permanent establishment in the other country, in which case it is taxable in that country on a net basis.

#### **Administration and Oversight**

Information exchange provisions make clear that Thailand is obligated to provide U.S. tax officials such information as is necessary to carry out the provisions of the Convention. U.S. negotiators are satisfied that, under this provision and under the existing Mutual Legal Assistance Treaty between the two countries, Thailand will be able to provide adequate tax information, including bank information, relevant to criminal cases that may be pursued by U.S. authorities. Additionally, under this provision and in accordance with present Thai law, Thailand will be able to provide adequate tax information, including bank information, to U.S. authorities in all civil cases in which a Thai tax interest exists.

The proposed Convention contains an unusual provision regarding exchange of information, designed to deal with this "tax interest" problem. The proposed Convention provides that Thailand generally is required to treat a U.S. tax interest as a Thai tax interest in all cases, including both civil and criminal tax proceedings. However, this general provision will not be in effect until the United States receives from Thailand a diplomatic note indicating that Thailand is both prepared and able to implement this provision, which will not be possible until Thai law is changed. If the United States has not received such a diplomatic note by June 30 of the fifth year following entry into force of the Convention, the entire Convention will terminate on January 1 of the sixth year following its entry into force.

The proposed Convention also contains significant rules, known as the "Limitation on Benefits" article, designed to restrict the benefits of the Convention to persons not engaged in "treaty shopping." The provisions are similar to those found in the U.S. Model and in all recent U.S. treaties.

The proposed Convention provides a U.S. foreign tax credit for the Thai income taxes covered by the Convention, and a Thai foreign tax credit for the U.S. income taxes covered by the Convention. However, U.S. rules regarding "dual capacity" taxpayers apply in determining the extent to which the Thai Petroleum Income Tax will be considered an income tax for U.S. foreign tax credit purposes. This is clarified in the exchange of notes. The notes also provide that if the United States alters its long-standing against the granting of "tax sparing credits," or provides for such credits in another treaty, negotiations will be reopened with a view to concluding a protocol that would offer similar benefits to Thailand.

Furthermore, the proposed Convention provides for non-discriminatory tax treatment (*i.e.*, national treatment) by one country of residents and nationals of the other. Also included in the proposed Convention are additional rules necessary for its administration, including rules for the resolution of disputes.

(more)

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And the proposed Convention allows the General Accounting Office and the tax writing Committees of Congress to obtain access to certain tax information exchanged under the Convention for use in their oversight of the administration of U.S. tax laws and treaties.

**Ratification**

The proposed Convention is subject to ratification. It will enter into force upon the exchange of instruments of ratification. It will have effect, with respect to taxes withheld at the source, for amounts paid or credited on or after the first day of the sixth month following entry into force. In other cases the Convention will have effect with respect to taxable periods beginning on or after the first day of January following the date on which the Convention enters into force.

The Convention will remain in force indefinitely unless terminated by either country. Either country will be able to terminate the Convention after 5 years from the date on which the Convention enters into force by giving at least six months prior notice through diplomatic channels.

Copies of the new Convention are available from the Office of Public Affairs, Treasury Department, Room 2315, Washington, D.C. 20220.

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# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 25, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$14,051 million of 13-week bills to be issued November 29, 1996 and to mature February 27, 1997 were accepted today (CUSIP: 9127944A9).

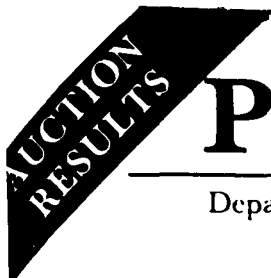
### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u>	<u>Investment</u>	<u>Price</u>
	<u>Rate</u>	<u>Rate</u>	
Low	5.02%	5.15%	98.745
High	5.03%	5.16%	98.743
Average	5.03%	5.16%	98.743

Tenders at the high discount rate were allotted 59%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$63,077,619	\$14,050,577
Type		
Competitive	\$57,417,936	\$8,390,894
Noncompetitive	<u>1,353,803</u>	<u>1,353,803</u>
Subtotal, Public	\$58,771,739	\$9,744,697
Federal Reserve	3,735,180	3,735,180
Foreign Official		
Institutions	<u>570,700</u>	<u>570,700</u>
TOTALS	\$63,077,619	\$14,050,577



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
November 25, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$14,063 million of 26-week bills to be issued November 29, 1996 and to mature May 29, 1997 were accepted today (CUSIP: 9127942Q6)

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.05%	5.25%	97.461
High	5.07%	5.27%	97.451
Average	5.07%	5.27%	97.451

Tenders at the high discount rate were allotted 32%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$50,434,723	\$14,062,534
Type		
Competitive	\$42,089,525	\$5,717,336
Noncompetitive	<u>1,055,398</u>	<u>1,055,398</u>
Subtotal, Public	\$43,144,923	\$6,772,734
Federal Reserve	3,700,000	3,700,000
Foreign Official		
Institutions	<u>3,589,800</u>	<u>3,589,800</u>
TOTALS	\$50,434,723	\$14,062,534

5.06 - 97.456

DEPARTMENT OF THE TREASURY

TREASURY  NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.  
November 26, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$28,000 million, to be issued December 5, 1996. This offering will provide about \$1,150 million of new cash for the Treasury, as the maturing weekly bills are outstanding in the amount of \$26,838 million.

Federal Reserve Banks hold \$7,203 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,106 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1389

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED DECEMBER 5, 1996**

November 26, 1996

<u>Offering Amount</u> . . . . .	\$14,000 million	\$14,000 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 2M 5	912794 4L 5
Auction date . . . . .	December 2, 1996	December 2, 1996
Issue date . . . . .	December 5, 1996	December 5, 1996
Maturity date . . . . .	March 6, 1997	June 5, 1997
Original issue date . . . . .	March 7, 1996	December 5, 1996
Currently outstanding . . . . .	\$30,916 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

Maximum Recognized Bid  
at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.  
November 26, 1996

CONTACT: Office of Financing  
202/219-3350

#### TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately \$9,000 million of 14-day Treasury cash management bills to be issued December 3, 1996.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

RR-1390



**HIGHLIGHTS OF TREASURY OFFERING  
OF 14-DAY CASH MANAGEMENT BILL**

November 26, 1996

**Offering Amount** . . . . . \$9,000 million

**Description of Offering:**

Term and type of security . 14-day Cash Management Bill  
 CUSIP number . . . . . 912794 6X 7  
 Auction date . . . . . December 2, 1996  
 Issue date . . . . . December 3, 1996  
 Maturity date . . . . . December 17, 1996  
 Original issue date . . . . December 3, 1996  
 Currently outstanding . . . . - - -  
 Minimum bid amount . . . . \$10,000  
 Multiples . . . . . \$1,000  
 Minimum to hold amount . . \$10,000  
 Multiples to hold . . . . \$1,000

**Submission of Bids:**

Noncompetitive bids . . . . Accepted in full up to \$1,000,000 at  
 the average discount rate of accepted  
 competitive bids  
 Competitive bids . . . (1) Must be expressed as a discount rate  
 with two decimals, e.g., 7.10%.  
 (2) Net long position for each bidder must  
 be reported when the sum of the total  
 bid amount, at all discount rates, and  
 the net long position is \$2 billion or  
 greater.  
 (3) Net long position must be determined  
 as of one half-hour prior to the  
 closing time for receipt of competi-  
 tive tenders.

**Maximum Recognized Bid**

**at a Single Yield** . . . 35% of public offering

**Maximum Award** . . . . . 35% of public offering

**Receipt of Tenders:**

Noncompetitive tenders . . . Prior to 11:00 a.m. Eastern Standard  
 time on auction day  
 Competitive tenders . . . . Prior to 11:30 a.m. Eastern Standard  
 time on auction day

**Payment Terms** . . . . .

Full payment with tender or by charge  
 to a funds account at a Federal  
 Reserve Bank on issue date

federal financing bank NEWS

WASHINGTON, D.C. 20220

Press 202-622-2960  
FFB 202-622-2450

November 27, 1996

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1996.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$61.0 billion on October 31, 1996, posting a decrease of \$995.0 million from the level on September 30, 1996. This net change was the result of a decrease in holdings of agency debt of \$1,000.0 million, and an increase in agency guaranteed loans of \$5.0 million. FFB made 21 disbursements during the month of October. FFB also received 11 prepayments in October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1996.

RR-1391

FEDERAL FINANCING BANK  
OCTOBER 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
*Note 29 /Advance #1	10/1	\$5,996,170,158.06	1/2/97	5.178% S/A
U.S. Postal Service	10/4	\$170,000,000.00	10/8/96	5.165% S/A
U.S. Postal Service	10/4	\$170,000,000.00	10/9/96	5.165% S/A
U.S. Postal Service	10/7	\$21,900,000.00	10/8/96	5.364% S/A
U.S. Postal Service	10/18	\$80,100,000.00	10/21/96	5.361% S/A
U.S. Postal Service	10/21	\$110,100,000.00	10/22/96	5.395% S/A
U.S. Postal Service	10/21	\$50,000,000.00	10/23/96	5.236% S/A
U.S. Postal Service	10/21	\$200,000,000.00	10/22/96	5.236% S/A
U.S. Postal Service	10/22	\$77,100,000.00	10/23/96	5.405% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Chamblee Office Building	10/2	\$90,685.32	4/1/97	5.471% S/A
Foley Square Courthouse	10/2	\$326,312.00	7/31/25	7.005% S/A
Foley Services Contract	10/2	\$178,461.24	7/31/25	7.005% S/A
Foley Services Contract	10/8	\$232,505.22	7/31/25	6.898% S/A
Foley Services Contract	10/25	\$185,286.26	7/31/25	6.958% S/A
Foley Square Office Bldg.	10/25	\$478,051.00	7/31/25	6.958% S/A
Foley Square Courthouse	10/31	\$324,257.00	7/31/25	6.789% S/A
GSA/PADC				
ICTC Building	10/16	\$7,958,248.81	11/2/26	6.957% S/A
RURAL UTILITIES SERVICE				
Head Laker Electric #372	10/1	\$258,000.00	12/31/26	7.007% Qtr.
E. Nebraska Tele. #398	10/15	\$400,000.00	1/3/17	6.788% Qtr.
Farmers Telephone #399	10/18	\$1,324,000.00	6/30/97	5.481% Qtr.
Randolph Electric #359	10/18	\$1,050,000.00	12/31/25	6.783% Qtr.
Central Electric Pow #331	10/24	\$3,172,000.00	1/2/07	6.577% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.  
maturity extension or interest rate reset

FEDERAL FINANCING BANK  
(in millions)

<u>Program</u>	<u>October 31, 1996</u>	<u>September 30, 1996</u>	<u>Net Change</u> <u>10/1/96-10/31/96</u>	<u>FY '97 Net Change</u> <u>10/1/96-10/31/96</u>
<b>Agency Debt:</b>				
Export-Import Bank	\$ 1,821.8	\$ 1,821.8	\$ 0.0	\$ 0.0
Resolution Trust Corporation	5,996.2	5,996.2	0.0	0.0
U.S. Postal Service	<u>500.0</u>	<u>1,500.0</u>	<u>-1,000.0</u>	<u>-1,000.0</u>
sub-total*	8,317.9	9,317.9	-1,000.0	-1,000.0
<b>Agency Assets:</b>				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	18,700.0	18,700.0	0.0	0.0
DHHS-Health Maintenance Org.	5.5	5.5	0.0	0.0
DHHS-Medical Facilities	18.8	18.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>
sub-total*	26,998.3	26,998.3	0.0	0.0
<b>Government-Guaranteed Loans:</b>				
DOD-Foreign Military Sales	3,244.5	3,247.2	-2.7	-2.7
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.8	39.1	-1.4	-1.4
DHUD-Public Housing Notes	1,626.8	1,626.8	0.0	0.0
General Services Administration +	2,342.0	2,332.3	9.8	9.8
DOI-Virgin Islands	19.9	19.9	0.0	0.0
DON-Ship Lease Financing	1,382.8	1,382.8	0.0	0.0
Rural Utilities Service	16,753.3	16,750.7	2.6	2.6
SBA-State/Local Development Cos.	315.0	318.4	-3.4	-3.4
DOT-Section 511	<u>12.7</u>	<u>12.7</u>	<u>0.0</u>	<u>0.0</u>
sub-total*	25,735.0	25,730.0	5.0	5.0
	=====	=====	=====	=====
grand-total*	\$ 61,051.3	\$ 62,046.2	\$ -995.0	\$ -995.0

\*figures may not total due to rounding  
+does not include capitalized interest

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 12:00 NOON  
November 29, 1996

CONTACT: Office of Financing  
202/219-3350

### TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately \$19,250 million of 52-week Treasury bills to be issued December 12, 1996. This offering will provide about \$450 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of \$18,792 million. In addition to the maturing 52-week bills, there are \$26,679 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold \$13,015 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,794 million of the maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold none of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

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Attachment

RR-1392

**Monthly Report  
by the  
Secretary of the Treasury**

*Pursuant to the  
Mexican Debt Disclosure Act  
of 1995*

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**November 1996**

*Treasury Secretary's Report to Congress*  
*November 1996*

**I. Overview**

In providing assistance to Mexico under the February 21, 1995 Agreements, the U.S. government acted to protect vital U.S. interests: American exports and jobs, the security of our common border, and the stability of other emerging market economies. U.S. and other international support in 1995 allowed Mexico to implement the policies necessary to avert default, regain access to international capital markets, and restore the basis for sustainable growth.

Mexico's economic recovery continued as real GDP grew by 7.4% in the third quarter compared to a year earlier, following 7.2% real GDP growth in the second quarter. Both the Mexican government and private analysts expect solid growth to continue next year. In presenting its 1997 budget, the government forecast real GDP growth of 3.7% for all of 1996 and 4% for 1997. In an October survey by *Consensus Economics*, private analysts forecast real GDP growth of 4.2% in 1997.

Mexico's financial markets strengthened in November, with the stock market rising 1.8% through November 26 and Brady Par bond stripped spreads tightening 58 basis points. The peso was broadly stable in November, appreciating to p7.87 per dollar on November 26 from p7.96 on October 31. Interest rates on the benchmark 28-day *cetes* fell 26 basis points from late October, to reach 29.1% in the November 26 auction; one-year interest rates fell more than two hundred basis points to 26.5%, as the yield curve became more inverted.

Monetary and fiscal policy continue to be solid. During the first nine months of 1996, Mexico registered an overall public sector surplus of p19.6 billion, more than 1% of that period's GDP. Through the first three quarters of 1996, fiscal results were within government targets and the growth of monetary aggregates also remained well within the Bank of Mexico's targets. The government is projecting a small budget surplus in 1996 and a budget deficit of 0.5% of GDP in 1997. Restrained monetary policy has helped Mexico to achieve a path of steady disinflation, with October's monthly inflation rate at 1.25%, the lowest rate since December 1994. Inflation in November and December is expected to be somewhat higher due to seasonal factors.

On the external side, the Mexican government and its agencies continued to attract international capital and have raised almost \$16 billion in 1996 to date. In November, Mexico placed 500 billion lire (about \$325 million) in five-year floating-rate notes, priced at 210 basis points over LIBOR. Mexico's trade balance registered a surplus of \$277 million in October (preliminary), bringing the cumulative 1996 surplus through October to \$5.8 billion. During the first ten months of 1996, exports and imports rose 19.9% and 22.5%, respectively, over the same period in 1995. Fueled by the resumption of Mexican growth, U.S. exports to Mexico continue to run at record levels this year.

*Treasury Secretary's Report to Congress  
November 1996*

Mexico has met all payment obligations to date under the U.S. financial support program. Including the August 1996 prepayment of \$7 billion, Mexico has repaid a net \$9 billion in outstanding short- and medium-term swaps to the Treasury and Federal Reserve. Thus, Mexico has repaid nearly three-quarters of its debt to the U.S., well ahead of schedule. It has also made interest payments totaling \$1.36 billion, including a \$68 million payment on September 30.

Mexico's \$3.5 billion in remaining obligations to the U.S. under the February 21, 1995 Agreements continues to be fully backed by proceeds from Mexico's crude oil, oil products, and petrochemical product exports. Payments for these exports flow through a special account at the Federal Reserve Bank of New York. As of November 20, \$14.3 billion had passed through this account.



*Treasury Secretary's Report to Congress  
November 1996*

**II. Current Condition of Mexico's Economy**

**a. Economic Activity**

***Mexico's economic recovery continued in the third quarter of 1996***

- Real GDP rose 7.4% in the third quarter on a year-over-year (y/y) basis, following 7.2% (y/y) growth in the second quarter. In the first nine months, GDP rose 4.4% over the same period in 1995.

**Gross Domestic Product  
(1993 basis; y/y comparison)**

	1995	1996Q1	1996Q2	1996Q3
GDP	-6.2	-1.0	7.2	7.4

***Recent indicators of domestic demand and production suggest solid economic growth***

- Industrial production rose 9.8% in the first nine months of 1996, compared to the same period in 1995.
- Domestic vehicle sales in October rose 56% compared to September and were at their highest level since December 1994. Sales in 1996 through October were up 76% from comparable 1995 levels, but were still down significantly from 1994.

***Continued growth expected in 1997***

- A survey of private analysts in October's *Consensus Economics* showed an average forecast of 4.1% real GDP growth in 1996, compared to the forecast of 2% at the beginning of the year.
- In its November presentation of the 1997 economic program, the government projected real GDP growth of 4%; an October survey by *Consensus Economics* forecast 4.2% growth.

*Treasury Secretary's Report to Congress  
November 1996*

***Trade balance in surplus through October***

Mexico's trade balance in October (preliminary) registered a \$277 million surplus. During the first ten months of 1996, exports and imports rose 19.9% and 22.5%, respectively, over the same period in 1995.

- For the first ten months of 1996, the trade surplus was \$5.8 billion, \$307 million lower than the surplus for the first ten months of 1995.
- Higher oil prices and export volumes contributed to the 1996 trade surplus. Oil export revenues in 1996 through October were \$9.5 billion, compared to \$7.2 billion over the same period last year.
- U.S. exports to Mexico rose to a record high in the first nine months of 1996, increasing by 19.1% compared to the same period in 1995, and by 8.5% compared to the same period in 1994.

***Labor markets show improvement***

- The open unemployment rate (not seasonally adjusted), a narrow rate of joblessness in the urban formal sector, was at 5.2% in October, down from 5.5% in September and was at its lowest rate since January 1995. Without seasonal influences, the unemployment rate in October would have been lower.
- Employment in the formal sector, as measured by the number of workers in the social security system, was at an all-time high in October, and was up 7.4% from October 1995.

**II. b. Monetary and Fiscal Policy**

***Monetary policy remains on track***

- Since January 1 of this year, base money has fallen about 2%, to P65.5 billion on November 22. Over the past twelve months, base money has risen 22.1%, compared to a 28% inflation rate over that period. Money growth remains consistent with the BOM's 1996 monetary program.

*Treasury Secretary's Report to Congress  
November 1996*

- In 1996, net domestic credit, defined as the monetary base less international reserves, has fallen by P37 billion while net international reserves (IMF definition) have increased by \$4.5 billion.

***Mexico maintains budget surplus in the third quarter of 1996; Mexico announces fiscal policy will remain firm in 1997***

The budget registered an overall surplus of p5.1 billion (0.9% of GDP) in the third quarter of 1996, bringing the cumulative surplus to p19.6 billion (1.1% of GDP) for the first three quarters of 1996.

- In its November presentation of its 1997 program, the government announced that it expects an overall surplus of p0.3 billion (0.01% of GDP) in 1996, consistent with its 1996 balanced budget target.

For 1997, the Mexican government projected a budget deficit of 0.5% of GDP. Included in its projection are the increased costs and revenue losses generated by social security reforms and debtor support programs, which are expected to cost about 1% of GDP. Pension reforms scheduled to take effect next July will help boost national savings.

**1997 Public Finances  
(changes in expenditures and revenues as % of GDP)**

Overall Public Budget	% of GDP
Expenditure:	+0.37%
Social security reform	+0.31%
Programmable cut	-0.29%
Debtor support program	+0.35%
Revenue:	+0.16%
Compliance and public price increases	+0.52%
Social security reform	-0.36%
Other expenditure and revenue effects	-0.30%
<b>Total</b>	<b>-0.51%</b>

*Treasury Secretary's Report to Congress  
November 1996*

***Inflation continues to recede***

- Monthly inflation registered 1.25% in October, the lowest rate since December 1994. Inflation for the first half of November was 0.9%. November and December inflation is expected to rise due to seasonal reasons.

**II. c. Financial Sector Developments**

***Restructuring continues in the banking system***

- On November 13, Banco Atlantico reached an agreement with the Banking Commission to sell p2 billion in loans to FOBAPROA, the central bank insurance fund; in return, Atlantico's shareholders will inject p1 billion in additional capital.

***Non-performing loans decline slightly, but remain high***

- The level of non-performing loans for the entire private banking system, including those of the intervened banks but excluding loans sold to FOBAPROA, were 12.0% in September, down from 12.7% in August.

**II. d. Financial Markets**

**The peso appreciated, while the yield curve became more inverted**

- The peso rose 1.1% through November 26 from its October 31 close of P7.96, closing at P7.87 to the dollar.

As of end-October, the real (inflation-adjusted) exchange rate had appreciated about 17.7% against the dollar from its end-1995 level. The peso was still about 20.8% below its pre-devaluation (November 1994) level in real terms.

- The November 26 primary auction resulted in 28-day cetes yields of 29.08% (on an annualized basis), down slightly from 29.34% at the October 29 auction. One-year rates were at 26.50% at the November 26 primary auction, down from 28.63% at the October 29 auction.

*Treasury Secretary's Report to Congress  
November 1996*

- Rates on Udibonos (3-year maturity) fell from 7.70% on October 29 to 7.19% on November 26. (Those bonds yield a "real" rate, in that their principal is indexed to Mexican inflation.)

***Financial asset prices rose***

- As of November 26, Mexico's stock market had risen 1.8% in peso terms since the end of October, up 128% over the February 1995 low, and up 47% from pre-crisis levels. In dollar terms, the Bolsa index was still down 36% from pre-crisis levels, but up 104% from its March 1995 low.
- The Mexican Brady Par Bond yield spread over U.S. Treasuries, adjusted to remove the effect of partial collateralization, fell from 5.62% on October 31 to 5.04% on November 26. This is about 14 percentage points below the 19.37% spread reached in March 1995.
- Mexico's 30-year uncollateralized dollar global bond, which was priced to yield a spread of 552 basis points (bps) over U.S. Treasuries on April 30, was trading in the secondary market on November 26 at 457 bps over comparable U.S. Treasuries, compared with a spread of 483 bps on October 31.

***Mexico continues to attract international capital***

The Mexican government and its agencies have raised almost \$16 billion in the international capital markets in 1996 to date.

- On November 7, Mexico launched a 500 billion lire (about \$325 million) issue of five-year floating-rate notes (FRN) priced at 210 bps over three-month LIBOR. This was the first FRN issue denominated in lira from an emerging market issuer.
- On November 15, Banobras, the state-owned public works bank, sold \$200 million in seven-year Yankee bonds. The bonds have a 9.625% coupon and were priced to yield 358 basis points over U.S. Treasuries.

*Treasury Secretary's Report to Congress  
November 1996*

- To date, the United States has received \$1.36 billion in interest payments from Mexico, including \$68 million in interest on medium-term swaps paid to the ESF on September 30.
- The period during which disbursements could be made under the February 21, 1995 agreements ended on August 21, 1996. The last disbursement under the program was made on July 5, 1995.

**V. Status of the Oil Facility**

The payment mechanism, established under the Oil Proceeds Facility Agreement, continues to function smoothly. This has been confirmed by independent reviews (in August 1995, February 1996, and August 1996).

- In each review, Petroleos Mexicanos' (PEMEX) independent public auditors, Coopers & Lybrand, analyzed the information utilized for the previous two quarterly export reports prepared by PEMEX and provided to the U.S. Treasury pursuant to the Oil Proceeds Facility Agreement.
- According to the reviews, the quarterly reports "fairly present" information related to both PEMEX's oil exports and the collection of proceeds from such exports. The next semi-annual review is expected in February 1997.

The Framework Agreement and the Oil Proceeds Facility Agreement were modified in August to permit the issuance of Mexico's \$6 billion floating rate notes, the proceeds of which were used to prepay most of the outstanding medium-term ESF swaps.

- These notes are backed by Mexican oil export revenues released from the oil facility, in a structure substantially similar to that already backing U.S. swaps.
- Full backing for the \$3.5 billion in U.S. swaps that remain outstanding has been preserved.

***Payments through the Federal Reserve Bank of New York account***

As of November 20, \$14.3 billion had flowed through Mexico's special funds account at the Federal Reserve Bank of New York, which backs the Treasury swaps. To date, there have been no set-offs against these proceeds from Mexico's crude oil, petrochemical, and refined product exports.

### Amortization Schedule of ESF and Federal Reserve Swaps with Mexico

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From: TREASURY PUBLIC AFFAIRS

	(U.S. Millions)	<b>Repayments to date (bold); Scheduled Repayment for outstanding balance (US\$ million)</b>							<b>Total Due (US\$ million)</b>	
		<b>Short-term swaps* provided on:</b>			<b>Medium-term swaps provided on:</b>				<b>Quarterly</b>	<b>Annually****</b>
		<b>01/11/95</b>	<b>01/13/95</b>	<b>02/02/95***</b>	<b>03/14/95</b>	<b>04/19/95</b>	<b>05/19/95</b>	<b>07/05/95</b>		
<b>Total Disbursed</b>	13,500	500	500	2,000	3,000	3,000	2,000	2,500		
<b>Quarter Ending</b>		n/a	n/a	n/a	7.50%	10.16%	10.16%	9.20%		
Mar-31-95	6,000	<b>500 (Mar 14)</b>	<b>500 (Mar 14)</b>							
Jun-30-95	5,000									
Sep-30-95	2,500									
Dec-31-95				<b>700 (Oct 11)</b>						
Mar-31-96				<b>1,300 (Jan 29)</b>	0	0	0	0		
Jun-30-96					0	0	0	0		
Sep-30-96					0	<b>3000 (Aug 5)</b>	<b>2000 (Aug 5)</b>	<b>2000 (Aug 5)</b>		
Dec-31-96					0	0	0	0		
Mar-31-97					0	0	0	0		
Jun-30-97					0	0	0	0		
Sep-30-97					0	0	0	41**	41	
Dec-31-97					0	0	0	41	41	82
Mar-31-98					0	0	0	41	41	
Jun-30-98					375**	0	0	41	416	
Sep-30-98					375	0	0	41	416	
Dec-31-98					375	0	0	41	416	1,289
Mar-31-99					375	0	0	41	416	
Jun-30-99					375	0	0	41	416	
Sep-30-99					375	0	0	41	416	
Dec-31-99					750	0	0	41	791	2,039
Mar-31-2000					0	0	0	41	41	
Jun-30-2000					0	0	0	49	49	
Sep-30-2000					0	0	0	0	0	
Dec-31-2000					0	0	0	0	0	90
<b>Total Remaining</b>		0	0	0	3,000	0	0	500	3,500	3,500

\* Short-term swap totals for each period represent equivalent amounts for ESF and Federal Reserve.

\*\*All medium-term swaps payments are due on last date in each calendar quarter. Amounts due from swaps of 7/95 reduced pro rata through partial payment 8/5/96.

\*\*\*\$2 billion in short term swaps disbursed on February 2, 1995 were rolled over for an additional 90 day period on May 3, 1995, and August 1, 1995, for a new maturity date of October 30, 1995. On October 11, Mexico repaid \$700 million of these obligations. The outstanding \$1.3 billion was rolled over for an additional 90 day period on October 30, for a new maturity date of January 29, 1996, when they were repaid.

\*\*\*\* This column represents the sum of quarterly payments in a given year; it does not represent an additional payment.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE  
December 2, 1996

Contact: Jon Murchinson  
(202) 622-2960

### RUBIN ANNOUNCES FIRST NADBANK FINANCINGS IN UNITED STATES

Treasury Secretary Robert E. Rubin announced Monday that the North American Development Bank (NADBank) will begin its lending and guarantee operations in the United States by approving financing for \$28.9 million for environmental infrastructure projects.

The NADBank board of directors approved financing for a \$24.8 million water treatment facility for the city of Brawley, California, and for a \$4.1 million improvement in the water supply and wastewater system for the community of Mercedes, Texas, subject in both cases to confirmation of the participation of other parties to the financing packages. In addition, the board approved a \$2 million management development program for U.S. and Mexican border communities.

“The Brawley and Mercedes projects demonstrate the ways in which the NADBank can provide financing for communities that lack access to capital and play a role in solving environmental problems through innovative market finance,” Secretary Rubin said. “The United States and Mexico share a clearly defined interest in helping to promote and finance these types of projects which benefit both sides of the border.”

The water treatment facility in Brawley will replace an existing facility that has been cited for non-conformance by the California State Department of Health Services. Brawley had difficulty accessing capital markets as a non-rated community. The NADBank designed a financing package that leverages \$2-5 million in loans into \$24.8 million in financing by helping the city gain access to private sector institutional investors.

The Mercedes project highlights the NADBank's capacity to mobilize local, federal and international organizations to assist small border communities. The bank's interim financing of \$1.875 million will be combined with grants from the U.S. Economic Development Administration and the Rio Grande Valley Empowerment Zone in a sustainable financing package for environmental cleanup in Mercedes.

-MORE-

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The Border Environment Cooperation Commission (BECC), which assists border states and communities in designing and coordinating environmental infrastructure projects in the border region, has certified both of these projects. The NADBank works closely with the BECC as the lead bank in arranging financing for BECC-certified projects.

The \$2 million NADBank management development program is designed to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. Many project sponsors seeking financial assistance from the bank need technical assistance in order to develop and implement projects that will be environmentally and financially sound. The program will focus on improving the institutional and financial capabilities of the project sponsors.

On September 20, the NADBank board announced its first Mexican project financings with the approval of an \$830,000 water supply and wastewater treatment facility in Naco, Sonora, and a \$1.1 million wastewater treatment plant for the Fraccionadora Industrial del Norte, S.A. (FINSA) industrial park in Matamoros, Tamaulipas.

The NADBank, which was created under the auspices of NAFTA, is an international financial institution capitalized and governed by the United States and Mexico to finance environmental infrastructure projects along the U.S. - Mexico border, as well as community adjustment and investment throughout both nations. Once the bank is fully capitalized, U.S. appropriations of \$225 million will be leveraged into \$2-3 billion in financing for border environmental projects and community adjustment that will provide significant benefits for U.S. citizens and businesses. The states of Arizona, California, New Mexico and Texas in particular will benefit from NADBank environmental lending. In addition to its environmental operations, the NADBank's U.S. community adjustment window will operate nationwide to offer financing directly through existing federal credit programs to assist communities and businesses adjust to the new trade environment created by NAFTA.

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STATEMENT OF VALERIE LAU  
INSPECTOR GENERAL  
DEPARTMENT OF THE TREASURY

COMMITTEE ON APPROPRIATIONS  
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT  
December 2, 1996

Chairman Shelby, Members of the Subcommittee. Thank you for the opportunity to clarify the facts relating to the initiation of our investigation in response to two Congressional requests. I would like to begin by emphasizing that it is my office's general policy not to discuss open investigations. In this instance, it seems that it is general knowledge that we do have an open investigation. Indeed, our investigation has been the subject of much speculation and misinterpretation. This is troubling to my office particularly since our investigation at this point has been limited to very preliminary activity.

I have three key points.

First, the purpose of our investigation, to the extent allowed by the Office of Independent Counsel, is to answer the questions posed by Senator Stevens as Chairman of the Senate Governmental Affairs Committee, and Congresswoman Collins as Ranking Minority Member of the House Committee on Government Reform and Oversight. In June, Chairman Stevens requested an investigation of ten questions generally pertaining to policies and practices regarding background investigation files and the production of the list used to request those files. In September, Congresswoman Collins' letter to Secretary Rubin requested an investigation of the preparation of the testimony of Secret Service officials before the House Committee on Government Reform and Oversight. That testimony involved the process by which the White House access list is maintained and updated.

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Second, we did not open this investigation until we were assured by the Office of Independent Counsel that doing so would not impede its investigation. My office notified the Office of Independent Counsel immediately after receiving each congressional request. Initially, the Office of Independent Counsel indicated a "strong preference that [we] not initiate any investigation or proceedings into the matter." After the second request, the Office of Independent Counsel informed us that we could proceed but under strict limitations. At that point, we opened an investigation. Because both requests addressed issues related to the preparation of lists relied upon to request background investigation files, the two requests were opened as one investigation.

Last, under the Inspector General Act, it is my office's responsibility to conduct its work in an independent and objective manner. My staff and I take this responsibility very seriously.

AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 2, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 14-DAY BILLS

Tenders for \$9,060 million of 14-day bills to be issued December 3, 1996 and to mature December 17, 1996 were accepted today (CUSIP: 9127946X7).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

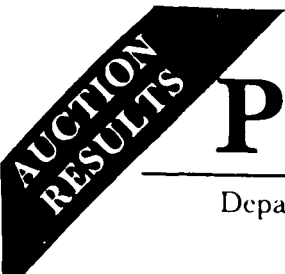
	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.16%	5.25%	99.799
High	5.19%	5.28%	99.798
Average	5.18%	5.25%	99.799

Tenders at the high discount rate were allotted 53%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$44,395,000	\$9,059,750
Type		
Competitive	\$44,395,000	\$9,059,750
Noncompetitive	<u>0</u>	<u>0</u>
Subtotal, Public	\$44,395,000	\$9,059,750
Federal Reserve	0	0
Foreign Official		
Institutions	<u>0</u>	<u>0</u>
TOTALS	\$44,395,000	\$9,059,750

RR-1396



# PUBLIC DEBT NEWS



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FOR IMMEDIATE RELEASE  
December 2, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$14,065 million of 13-week bills to be issued December 5, 1996 and to mature March 6, 1997 were accepted today (CUSIP: 9127942M5).

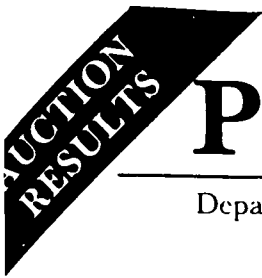
### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	4.97%	5.10%	98.744
High	4.98%	5.11%	98.741
Average	4.98%	5.11%	98.741

Tenders at the high discount rate were allotted 53%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$73,861,141	\$14,065,461
Type		
Competitive	\$68,271,119	\$8,475,439
Noncompetitive	<u>1,411,267</u>	<u>1,411,267</u>
Subtotal, Public	\$69,682,386	\$9,886,706
Federal Reserve	3,452,955	3,452,955
Foreign Official		
Institutions	<u>725,800</u>	<u>725,800</u>
TOTALS	\$73,861,141	\$14,065,461



# PUBLIC DEBT NEWS



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December 2, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$14,124 million of 26-week bills to be issued December 5, 1996 and to mature June 5, 1997 were accepted today (CUSIP: 9127944L5).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.02%	5.22%	97.462
High	5.04%	5.24%	97.452
Average	5.04%	5.24%	97.452

Tenders at the high discount rate were allotted 51%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$44,103,978	\$14,123,857
Type		
Competitive	\$36,593,562	\$6,613,441
Noncompetitive	<u>1,149,316</u>	<u>1,149,316</u>
Subtotal, Public	\$37,742,878	\$7,762,757
Federal Reserve	3,750,000	3,750,000
Foreign Official Institutions	<u>2,611,100</u>	<u>2,611,100</u>
TOTALS	\$44,103,978	\$14,123,857

5.03 - 97.457

DEPARTMENT OF THE TREASURY

TREASURY  NEWS

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EMBARGOED UNTIL 2:30 P.M.  
December 3, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,000 million, to be issued December 12, 1996. This offering will result in a paydown for the Treasury of about \$675 million, as the maturing 13-week and 26-week bills are outstanding in the amount of \$26,679 million. In addition to the maturing 13-week and 26-week bills, there are \$18,792 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold \$13,015 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,795 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold the entire \$4,795 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1399

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED DECEMBER 12, 1996**

December

<b>Offering Amount</b> . . . . .	\$13,000 million	\$13,000 million
<b>Description of Offering:</b>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 4B 7	912794 4M 3
Auction date . . . . .	December 9, 1996	December 9, 1996
Issue date . . . . .	December 12, 1996	December 12, 1996
Maturity date . . . . .	March 13, 1997	June 12, 1997
Original issue date . . . . .	September 12, 1996	December 12, 1996
Currently outstanding . . . . .	\$11,192 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

**The following rules apply to all securities mentioned above:**

**Submission of Bids:**

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

**Maximum Recognized Bid  
at a Single Yield** . . . . .

35% of public offering

**Maximum Award** . . . . .

35% of public offering

**Receipt of Tenders:**

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

**Payment Terms** . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:00 PM

December 5, 1996

Contact: Peter Hollenbach

(202) 219-3302

## PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR NOVEMBER 1996

Treasury's Bureau of the Public Debt announced activity figures for the month of November 1996, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

### Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	\$928,139,979
Held in Unstripped Form	\$705,004,894
Held in Stripped Form	\$223,135,085
Reconstituted in November	\$13,647,413

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the *Monthly Statement of the Public Debt*, entitled "Holdings of Treasury Securities in Stripped Form."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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PA-241

RR-1400

TABLE VI – HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, NOVEMBER 30, 1996  
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month #1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
8-1/2% Note A-1997	05/15/97	9,921,237	7,518,437	2,402,800	2,400
8-5/8% Note B-1997	08/15/97	9,362,836	6,682,836	2,680,000	16,000
8-7/8% Note C-1997	11/15/97	9,808,329	6,438,729	3,369,600	62,400
8-1/8% Note A-1998	02/15/98	9,159,068	7,009,948	2,149,120	244,480
9% Note B-1998	05/15/98	9,165,387	6,644,587	2,520,800	21,200
9-1/4% Note C-1998	08/15/98	11,342,646	8,270,646	3,072,000	34,400
8-7/8% Note D-1998	11/15/98	9,902,875	6,435,675	3,467,200	72,000
8-7/8% Note A-1999	02/15/99	9,719,623	7,994,823	1,724,800	62,400
9-1/8% Note B-1999	05/15/99	10,047,103	6,901,503	3,145,600	59,200
8% Note C-1999	08/15/99	10,163,644	7,307,269	2,856,375	85,725
7-7/8% Note D-1999	11/15/99	10,773,960	7,337,160	3,436,800	16,000
8-1/2% Note A-2000	02/15/00	10,673,033	7,968,633	2,704,400	57,200
8-7/8% Note B-2000	05/15/00	10,496,230	5,693,030	4,803,200	6,400
8-3/4% Note C-2000	08/15/00	11,080,646	7,188,646	3,892,000	111,840
8-1/2% Note D-2000	11/15/00	11,519,682	7,412,482	4,107,200	0
7-3/4% Note A-2001	02/15/01	11,312,802	8,022,402	3,290,400	71,200
8% Note B-2001	05/15/01	12,398,083	8,728,183	3,669,900	87,000
7-7/8% Note C-2001	08/15/01	12,339,185	9,483,185	2,856,000	28,800
7-1/2% Note D-2001	11/15/01	24,226,102	21,022,662	3,203,440	77,600
7-1/2% Note A-2002	05/15/02	11,714,397	10,045,757	1,668,640	33,600
6-3/8% Note B-2002	08/15/02	23,859,015	22,742,215	1,116,800	84,800
6-1/4% Note A-2003	02/15/03	23,562,691	23,190,819	371,872	21,504
5-3/4% Note B-2003	08/15/03	28,011,028	27,571,828	439,200	7,200
5-7/8% Note A-2004	02/15/04	12,955,077	12,782,277	172,800	0
7-1/4% Note B-2004	05/15/04	14,440,372	14,433,972	6,400	0
7-1/4% Note C-2004	08/15/04	13,346,467	13,300,867	45,600	0
7-7/8% Note D-2004	11/15/04	14,373,760	14,373,760	0	0
7-1/2% Note A-2005	02/15/05	13,834,754	13,834,754	0	0
6-1/2% Note B-2005	05/15/05	14,739,504	14,739,504	0	0
6-1/2% Note C-2005	08/15/05	15,002,580	15,002,580	0	0
5-7/8% Note D-2005	11/15/05	15,209,920	15,209,920	0	0
5-5/8% Note A-2006	02/15/06	15,513,587	15,513,587	0	0
6-7/8% Note B-2006	05/15/06	16,015,475	16,015,475	0	0
7% Note C-2006	07/15/06	22,740,446	22,740,446	0	0
6-1/2% Note D-2006	10/15/06	22,460,000	22,460,000	0	0
11-5/8% Bond 2004	11/15/04	8,301,806	4,516,206	3,785,600	540,800
12% Bond 2005	05/15/05	4,260,758	1,802,408	2,458,350	55,000
10-3/4% Bond 2005	08/15/05	9,269,713	6,855,313	2,414,400	305,600
9-3/8% Bond 2006	02/15/06	4,755,916	4,741,516	14,400	0
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,991,184	4,014,400	65,600
11-1/4% Bond 2015	02/15/15	12,667,799	10,493,079	2,174,720	1,530,880
10-5/8% Bond 2015	08/15/15	7,149,916	4,591,836	2,558,080	1,584,000
9-7/8% Bond 2015	11/15/15	6,899,859	4,360,659	2,539,200	131,200
9-1/4% Bond 2016	02/15/16	7,266,854	6,454,854	812,000	236,800
7-1/4% Bond 2016	05/15/16	18,823,551	18,494,751	328,800	11,200
7-1/2% Bond 2016	11/15/16	18,864,448	18,204,928	659,520	342,960
8-3/4% Bond 2017	05/15/17	18,194,169	11,197,689	6,996,480	1,190,400
8-7/8% Bond 2017	08/15/17	14,016,858	7,844,058	6,172,800	168,000
9-1/8% Bond 2018	05/15/18	8,708,639	2,867,039	5,841,600	604,800
9% Bond 2018	11/15/18	9,032,870	2,769,270	6,263,600	303,000
8-7/8% Bond 2019	02/15/19	19,250,798	5,322,798	13,928,000	892,800
8-1/8% Bond 2019	08/15/19	20,213,832	18,106,312	2,107,520	658,880
8-1/2% Bond 2020	02/15/20	10,228,868	6,012,468	4,216,400	183,200
8-3/4% Bond 2020	05/15/20	10,158,883	3,759,043	6,399,840	385,760
8-3/4% Bond 2020	08/15/20	21,418,606	6,209,806	15,208,800	650,080
7-7/8% Bond 2021	02/15/21	11,113,373	9,924,573	1,188,800	22,400
8-1/8% Bond 2021	05/15/21	11,958,888	5,606,248	6,352,640	665,600
8-1/8% Bond 2021	08/15/21	12,163,482	4,071,002	8,092,480	123,520
8% Bond 2021	11/15/21	32,798,354	6,552,494	26,245,900	522,000
7-1/4% Bond 2022	08/15/22	12,352,790	8,256,790	2,096,000	42,400
7-5/8% Bond 2022	11/15/22	12,699,626	2,862,826	7,836,800	9,600
7-1/8% Bond 2023	02/15/23	18,374,361	14,118,361	4,256,000	76,800
6-1/4% Bond 2023	08/15/23	22,909,044	22,417,556	491,488	374,464
7-1/2% Bond 2024	11/15/24	11,469,662	4,166,222	7,303,440	417,680
7-5/8% Bond 2025	02/15/25	11,725,170	5,353,970	6,371,200	166,400
6-7/8% Bond 2025	08/15/25	12,602,007	12,277,527	324,480	122,240
6% Bond 2026	02/15/26	12,934,916	12,420,516	484,400	0
6-3/4% Bond 2026	08/15/26	12,893,818	10,870,618	23,200	0
6-1/2% Bond 2026	11/15/26	11,493,177	11,492,377	800	0
Total		929,139,979	705,004,894	223,135,085	13,647,413

#1 Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

Note: On the 4th workday of each month Table VI will be available after 3:00 p.m. eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 482-1986. The balances



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 5, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for \$19,327 million of 52-week bills to be issued December 12, 1996 and to mature December 11, 1997 were accepted today (CUSIP: 9127942X1).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	5.13%	5.41%	94.813
High	5.16%	5.45%	94.783
Average	5.16%	5.45%	94.783

Tenders at the high discount rate were allotted 86%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$44,292,387	\$19,326,767
Type		
Competitive	\$37,969,590	\$13,003,970
Noncompetitive	<u>795,344</u>	<u>795,344</u>
Subtotal, Public	\$38,764,934	\$13,799,314
Federal Reserve	5,527,453	5,527,453
Foreign Official		
Institutions	<u>0</u>	<u>0</u>
TOTALS	\$44,292,387	\$19,326,767

An additional \$1,201,000 thousand of bills will be issued to foreign official institutions for new cash.

5.14 - 94.803      5.15    94.793

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

December 6, 1996

## Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of November 1996.

As indicated in this table, U.S. reserve assets amounted to \$75,444 million at the end of November 1996, down from \$75,557 million in October 1996.

U.S. Reserve Assets (in millions of dollars)						
End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/ ESF	System	Reserve Position in IMF 2/
<u>1996</u>						
October	75,557 r	11,049	10,226	19,334	19,431	15,517
November	75,444 p	11,049p	10,386	19,240	19,253	15,516

1/ Valued at \$42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Holdings of Treasury Exchange Stabilization Fund (ESF) and Federal Reserve System. Beginning November 1978, these holdings are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

p Preliminary

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

RR-1402



AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 9, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,035 million of 13-week bills to be issued December 12, 1996 and to mature March 13, 1997 were accepted today (CUSIP: 9127944B7).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

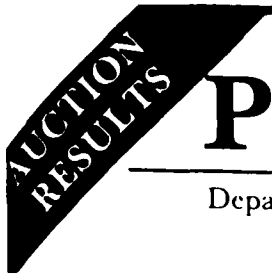
	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	4.82%	4.95%	98.782
High	4.83%	4.96%	98.779
Average	4.83%	4.96%	98.779

Tenders at the high discount rate were allotted 22%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$54,253,706	\$13,034,551
Type		
Competitive	\$49,005,477	\$7,786,322
Noncompetitive	<u>1,404,528</u>	<u>1,404,528</u>
Subtotal, Public	\$50,410,005	\$9,190,850
Federal Reserve	3,754,501	3,754,501
Foreign Official		
Institutions	<u>89,200</u>	<u>89,200</u>
TOTALS	\$54,253,706	\$13,034,551

RR-1403



# PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 9, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,101 million of 26-week bills to be issued December 12, 1996 and to mature June 12, 1997 were accepted today (CUSIP: 9127944M3).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	4.96%	5.16%	97.492
High	4.98%	5.18%	97.482
Average	4.97%	5.17%	97.487

Tenders at the high discount rate were allotted 15%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$48,932,625	\$13,100,968
Type		
Competitive	\$41,246,635	\$5,414,978
Noncompetitive	<u>1,131,164</u>	<u>1,131,164</u>
Subtotal, Public	\$42,377,799	\$6,546,142
Federal Reserve	3,732,826	3,732,826
Foreign Official Institutions	<u>2,822,000</u>	<u>2,822,000</u>
TOTALS	\$48,932,625	\$13,100,968

RR-1404

# FACT SHEET

## TREASURY'S 'OIL FOR FOOD' REGULATIONS 12/10/96

\* The Treasury Department's Office of Foreign Assets Control (OFAC) has issued regulations impacting United States firms planning to participate in the United Nations-administered sale of Iraqi oil in exchange for humanitarian goods.

\* American energy firms that have signed executory contracts for the purchase of Iraqi crude oil -- as per a previously issued OFAC general license -- can now request specific licenses that will place them on the U.S. list for direct dealings with the U.N. committee in charge of such sales.

\* Applicants for these specific licenses must submit basic business information, written certification that they have entered into an executory oil purchase contract with Iraq and fully understand and will abide by all applicable U.S. and U.N. rules, and an acknowledgment that, as licensees, they will promptly provide OFAC officials on demand information pertaining to their dealings in Iraqi oil.

\* OFAC will expeditiously process applications and provide the resulting list of licensees to the administering U.N. committee.

\* The regulations generally license all U.S. persons and firms to enter into secondary oil purchase agreements with any primary purchaser previously authorized by the U.N.

\* Specific licenses are also available to U.S. firms that have signed executory contracts to sell humanitarian goods such as food and medicine, or essential pipeline equipment, to Iraq through U.N. procedures. Copies of contracts with Iraq and other information must be provided to OFAC, which will review them and, if appropriate, forward them for U.N. approval.

\* OFAC's so-called "oil for food" regulations were filed with the Federal Register and became effective today. They can be obtained from the Federal Register or from OFAC's fax-on-demand system at (202) 622-0077. They also will be available electronically via the Internet the day of publication on the Federal Bulletin Board. By modem, dial (202) 512-1387 and type "\GO FAC" or call (202) 512-1530 for disk or hard copies.

\* Media questions can be directed to Darren McKinney at Treasury's office of public affairs, (202) 622-2960.

RR-1405

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED UNTIL 2:30 P.M.  
December 10, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,000 million, to be issued December 19, 1996. This offering will result in a paydown for the Treasury of about \$28,925 million, as the maturing bills total \$54,919 million (including the 48-day cash management bill issued on November 1, 1996, in the amount of \$17,048 million and the 34-day cash management bill issued on November 15, 1996, in the amount of \$13,217 million).

Federal Reserve Banks hold \$6,964 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$6,289 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1406



**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED DECEMBER 19, 1996**

December 10, 1996

<u>Offering Amount</u> . . . . .	\$13,000 million	\$13,000 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 4C 5	912794 4N 1
Auction date . . . . .	December 16, 1996	December 16, 1996
Issue date . . . . .	December 19, 1996	December 19, 1996
Maturity date . . . . .	March 20, 1997	June 19, 1997
Original issue date . . . . .	September 19, 1996	December 19, 1996
Currently outstanding . . . . .	\$11,105 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

Maximum Recognized Bid  
at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED UNTIL 2:30 P.M.  
December 11, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES  
TOTALING \$30,750 MILLION

The Treasury will auction \$18,250 million of 2-year notes and \$12,500 million of 5-year notes to refund \$27,768 million of publicly-held securities maturing December 31, 1996, and to raise about \$2,975 million new cash.

In addition to the public holdings, Federal Reserve Banks hold \$1,475 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include \$1,879 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights

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Attachment

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TREASURY



NEWS

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EMBARGOED UNTIL 9:00 A.M. (EST)

**Strengthening Our International Tax System**  
**Lawrence H. Summers**  
**Deputy Secretary of the Treasury**  
**Treasury Conference on Formula Apportionment**  
**Washington, D.C.**  
**December 12, 1996**

Good morning. On behalf of the Treasury Department, I would like to welcome all of you to this conference on formula apportionment. I would particularly like to thank Senator Dorgan for his leadership on this subject. Senator Dorgan has played the key role in bringing these issues to the forefront of our national debate.

Before beginning, I would like to stress at the outset, the full, unqualified, support of the United States government for the international consensus that has developed on how to tax the cross-border transactions of multinational corporations. The fact that the Treasury Department is holding this conference does not indicate in any way that our support for the arm's length method is wavering. Nevertheless, it is also clear that we can all benefit from the frank exchange of opinions regarding alternative taxation approaches.

Today, I will discuss two broad subjects. First, I would like to summarize the five broad goals we must pursue when taxing multinational enterprises. In turn, I will discuss key issues that arise when considering adopting the formula apportionment system for federal purposes and give my assessment of the outlook for the future.

**Goals of the international tax system**

The central objective of any international tax system is to create a tax environment that, while promoting competitiveness, does not permit companies to divert income to tax havens. And achieving that objective requires a delicate balance among five principal goals. The goals are:

- Neutrality of location
- Maintenance of competitiveness
- Administrability
- Protection of the revenue base; and
- Compatibility with international norms.

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Any proposed change should be viewed in the context of these goals and must bear the burden of proof that it will improve, not merely match the performance of the current system. Let me discuss each of these goals in turn.

**Neutrality in location.** Our first goal must be to insure that our tax system does not direct investment to a particular location or interfere with the choice of American companies to invest where they believe they can best contribute to productivity. We have pursued this objective from the time we began taxing companies in the early 1900's. We accordingly tax our companies on their worldwide income but avoid creating incentives for them to shift operations overseas. Here in the US, we offer a nondiscriminatory open market where foreign-based firms can freely contribute to the growth of our economy.

**Maintenance of Competitiveness.** We must also allow our companies to compete on equal footing with their foreign counterparts when they do business abroad. We do not tax the real operating income of US controlled foreign companies. In addition, we provide a broad-based credit for foreign income taxes to avoid double taxation. Promoting our companies' competitiveness abroad is important not only because of the substantial amount of investment generated, but also because this investment spurs demand for US goods and services, which stimulates additional demand for US employment.

**Administrability.** We must also be able to administer our laws and make sure that we collect the proper amount of revenue from our companies that do business abroad and from foreign companies doing business in the United States. To do this, the system must not become too complex and it must encourage companies to comply voluntarily with the rules --- and to penalize them when they fail to comply. Our system must also encourage international cooperation on tax administration.

**Protection of the Revenue Base.** In the past couple of years, we have examined several tax reform proposals that purport not only to simplify our tax system, but also to cure all of the ailments in our present system. My guess is that if any of these proposals were as good as their proponents say, they would have been adopted long ago. We should also bear in mind that methods that appear simple on paper can be devilishly difficult in practice.

**Compatibility with International Norms.** Finally, a primary goal of our international tax system that is sometimes lost in the debate, is that it must remain compatible with international norms.

It is easy to envision systems that satisfy one or more of these goals but not all of them. Taken together, the five goals provide a strong framework with which to assess tax proposals.

### **The Arm's Length Standard**

Let me now turn to some specific methods of international taxation. I would like to reflect first on the current arm's length standard. Though it has been in service for many years, the application of the current arm's length standard continues to evolve.

The longstanding view in the United States and around the world is that related taxpayers should be held to the pricing standard established by unrelated taxpayers. By adhering to what is called the "arm's length standard", related taxpayers are prevented from ignoring market considerations when setting their "transfer prices" (i.e., the price for their internal transactions) and gaining an unfair tax advantage over their unrelated competitors.

Finding the correct transfer prices is important because these prices determine how a multinational company's income is divided between the United States and other countries. If U.S. companies and the U.S. subsidiaries of foreign companies can manipulate these prices, then taxable income reported to the United States may be artificially lowered, the U.S. revenue base will be eroded, and the overall corporate tax liability will be inappropriately reduced. Conversely, if the transfer pricing rules require too much income to be reported to the United States, the resulting double taxation of international income flows would harm companies doing business in the United States.

The Clinton administration has made tremendous progress in improving the efficiency and application of the arm's length standard, and we continue to promote new approaches:

- We updated our transfer pricing regulations to incorporate new pricing methods that reflect the increasingly complex nature of multinational companies' operations and the growth in the cross-border transfer of intangible goods.
- We finalized regulations implementing a legislative change that improves our self-assessment tax system. Under these regulations, taxpayers are required, subject to penalties, to make a reasonable effort to reflect arm's length prices in their transactions with related parties.
- The US joined with tax administrators of the OECD member countries in issuing a reporting that provided a ringing endorsement of the arm's length principle. We have gained international acceptance of our transfer pricing methods. More and more countries, particularly in Asia and Latin America, are adopting and beefing up enforcement of their transfer pricing rules.

In addition, we have taken steps to counter transfer pricing abuses.

- In the OBRA 1993 legislation and subsequent implementing regulations, we stiffened penalties on taxpayers that neglect their responsibility to comply with US law.
- The Administration has also strengthened the "earnings stripping" rules to more effectively limit the ability of foreign companies to siphon profits out of the United States in the form of untaxed interest payments.

These steps move us even further towards our goal of insuring taxation of all income by the appropriate jurisdiction while avoiding double taxation.

### **The Changing Economic Environment**

While this system has, on balance, served us well and we are continuing to improve and refine it, it is also important that we be open to alternative approaches. The tax system is a living organism that must continually adapt to change. If incremental improvements are desirable, it is legitimate to ask whether more radical change is needed. Forces that might lead us to consider a dramatic change include large changes in how and where firms do business. Accordingly, I would like to take a moment to discuss the global economy.

The dismantling of economic barriers to cross-border trade is stimulating additional cross-border investment flows, with US investment abroad and foreign investment in the United States each rising nearly 10-percent annually. US direct investment into Europe has increased more than \$150 billion since the Europeans embarked on their project to create a barrier-free Single European Market and now exceeds \$360 billion in manufacturing and services industries. At the same time, US direct investment in the dynamic Asian economies rose 16 percent in 1995 and now exceeds \$100 billion.

Our present system is flexible enough to permit us to accommodate advances in electronic commerce as discussed in our recent report on that subject. Nevertheless, the growth in new technologies coupled with the greater integration of the world economy suggests that it may be time to examine whether more radical changes to our tax system are in order.

### **An Alternative Approach to International Taxation**

As I said in a paper ten years ago discussing *Tax Policy in the 21st Century*, which now is just around the corner, increasing international economic integration creates an increased need for international harmonization of tax policies. In that regard, the states' experience may be helpful in evaluating potential changes to the federal approach. As you will hear discussed later today, some states used the arm's length approach until it became unworkable for dealing with the increasing number of large, integrated businesses that had no clear-cut way of allocating profits across jurisdictions. The states turned to apportionment, which, given the integrated nature of their economies and of multistate businesses, proved a workable alternative to the separate accounting method. Even though the system worked well in the states, however, I said then that it would be premature to conclude that the system used by America's 50 states is the right one for the world economy. Ten years later, I still support that conclusion.

I, nevertheless, believe that we need to be thinking of ways to address the technical problems created by world economic integration. In my paper, I predicted that by the twenty-first century, nations would have taken major new cooperative steps to tax multinational

corporations. This step has already occurred, as shown by our trading partners' unanimous endorsement of our new transfer pricing methodologies. I am confident that during the 21st century we will continue to examine and improve our tax system.

Formula apportionment does have an advantage, or a disadvantage, depending on your view, over other radical reforms proposed to our tax system. Unlike other radical proposals such as the flat tax, the formula apportionment method is an approach that has been tried and tested extensively in the U.S. states. Thus, our states can teach us about the possible advantages and potential dangers of using this system at the federal level. Not only that, we don't have to go to the state capitals to pose our questions. Many of our federal legislators are experienced state tax officials, including Senator Dorgan, who is a former North Dakota tax commissioner, who knows the strengths as well as the weaknesses the states face with the formula apportionment system.

It is equally clear, however, that moving to formula apportionment would not be easy. Because it apportions total income using a simple formula, its proponents claim that companies need find just a handful of numbers to determine their tax liability. This claim will be true only if countries can agree fully on the definition of total income and the formula. If they can't reach this agreement, then the amount of information required would be multiplied by the number of different definitions used by different countries. In addition, severe double taxation or undertaxation would arise when these definitions failed to conform to one another. Thus, in the absence of a greater consensus than the world has been able to achieve in any arena to date, the formula apportionment approach is not a realistic alternative to the arm's length standard.

### **Why not make a unilateral move?**

Given the difficulty in reaching consensus on all of the elements of the system, should the United States take the lead in proposing a move to formula apportionment, assuming that other countries will inevitably follow? The answer is no.

- First, since the formula apportionment system is not compatible with current practices, a unilateral move would severely disrupt world business. Companies would find themselves overtaxed as countries moved to appropriate more income.
- Second, proposing a radically different approach after having worked so hard to strengthen support for the current approach would pose a number of challenges.

However, if there is one overridingly compelling reason to support the current system, it is that the existing arm's length standard represents the best way, in today's economic environment to achieve fair taxation of international transactions.

The United States would, in all likelihood, be isolated if we unilaterally adopted formula apportionment. The resulting overlap of incompatible approaches would destroy our network of tax treaties and severely harm the ability of our companies to compete on the world



stage. Given the importance of international cooperation in implementing formula apportionment, the U.S. cannot and *should not* move forward alone.

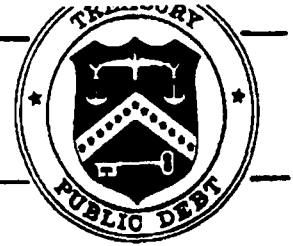
### **Conclusion**

The success of the apportionment system in the states depends significantly on the states' ability to use a common accounting system, common currency, and to apply a common definition of taxable income as well as an ability to work under the umbrella of the federal system. There are no real barriers to the cross-border movement of goods and services at the state level. One day, the global economy may reach such a stage of economic integration; however, that day has not yet arrived.

As I have said on other occasions, we must build a tax system that is administered fairly and that promotes equity, growth, and simplicity. It would be a mistake to turn back on the progress we have made so far. Instead, we must continue to build on that progress by strengthening our commitment to ensure that all companies, whether foreign or American, pay their fair share of taxes, no more, no less.

I look forward to a frank exchange of opinions and analysis of some of the important technical and administrative issues surrounding the vital subject of our international system of taxation later today.

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE

December 12, 1996

Contact: Peter Hollenbach  
(202) 219-3302

## RUBIN NAMES 1997 U.S. SAVINGS BONDS VOLUNTEER COMMITTEE

Treasury Secretary Robert E. Rubin today named Chevron Chairman and CEO Kenneth T. Derr National Chair of the 1997 U.S. Savings Bonds Volunteer Committee.

"Volunteers are the mainstay of the savings bonds program," Secretary Rubin said. "Mr. Derr and his committee of top business and government leaders will do much to make our 1997 savings bonds campaign a success. Their work is important because it educates employees about the need to save for the future."

Series EE savings bonds offer all Americans a safe, convenient way to save. Available for as little as \$25, bonds pay market-based interest, enjoy federal tax deferral on earnings and are free from state and local income taxes. Some 55 million Americans own savings bonds worth \$187 billion. Seven million individuals buy bonds through the payroll savings plan where they work.

Mr. Derr assumed his present position in 1989 after serving one of the company's two vice-chairmen, responsible for Chevron's U.S. petroleum business, chemicals, coal, land development, research and several major corporate staff groups, such as Human Resources, Public Affairs and Environmental Affairs.

A native of Wilkes-Barre, Pa., Derr joined Chevron after graduating from Cornell University with degrees in mechanical engineering and business administration. He is chairman and a director of the American Petroleum Institute. He is a member of President Clinton's Council on Sustainable Development and served as a member of President Bush's Commission on Environmental Quality.

Mr. Derr succeeds 1996 National Chair James R. Leva, Chairman, President, and Chief Executive Officer of General Public Utilities Corporation (GPU), New Jersey.

A list of members of the 1997 U.S. Savings Bonds Volunteer Committee is attached.

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**Making 'Welfare-to-work' Work  
Remarks to the Kennedy School Forum  
Secretary Robert Rubin  
December 12, 1996**

What I would like to do today is to discuss what I think is an absolutely key domestic issue in this country faces, an issue which I think will profoundly affect all of us; and, that is, bringing the residents of the inner cities into the economic mainstream. This is a subject that I've care an enormous amount about for a long time and in my view it is a subject which will take on a special urgency in the next few months, because it is closely related to the debate over welfare reform.

As you well know, the President signed the welfare reform bill this fall, but at the same time said the bill contains serious flaws, but those flaws he will do everything possible to fix. And let me say right now, that conventional wisdom notwithstanding, we do not accept the notion that because of the nature of Congress this bill cannot be fixed. President will fight with every ounce of energy he has, and all of us will fight with him, to try to fix this bill. And if I may add as a practical political fact, that in the give and take of all the things that are going to wind up in Congress, there will be a lot of opportunity, I believe, to try to do things to make this welfare bill a better bill. As you know, the welfare reform bill was not simply a welfare reform bill, it was also a bill that dealt with legal immigrants and it was a bill that dealt with food stamps. And it is in those two areas that the critical problems arose, and it is those two areas that we need to address, redressing this legislation.

Having said that, there is a great deal more that we need to do to make welfare reform really work, other than simply fixing this bill. What we need to do is to put in place the programs that will have the effect of providing jobs for those who move from welfare to work. And that, in turn, is part of a larger issue of economic development in the inner cities, and moving the residents of the inner cities into the economic mainstream. And that in my view,

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and it is a view I've had for a long time, is a matter of fundamental importance for all of us, no matter what are incomes may be, or where we may live.

As some of you know, I worked at a major investment banking firm for 26 years. When I did so I worked on the kinds of things I now deal with as Secretary of the Treasury: taxes, the economy, markets, level of the dollar, Glass-Steagal, international trade, banking and the like. But I also developed the view a long time ago, and it was largely the result of reading a very influential book about fifteen years ago, that until we bring the residents of the inner cities into the economic mainstream, all of us -- no matter where we live or what our incomes may be -- would be powerfully disadvantaged; that we lose tremendously the potential for our economy and in a worsening of our social conditions because of these tremendous problems that have historically not been dealt with in this country. Just think of the enormous difference in costs that are borne by the taxpayers, and think of the enormous differences in productivity, and in the quality of life for all of us, if we can break the cycle of poverty and equip the urban poor to join the economic mainstream.

Being in the White House for two years, and now at Treasury for two years, has given me an extraordinary and rare opportunity to act on these issues, but all of us, no matter where we are or what we are doing, can contribute in a meaningfully way. Our Chief of Staff at the Treasury, for example, tutors an inner city school kid, a trader I know on Wall Street acts as a big brother to two kids, and others help rehabilitate houses, mentor small businesses, volunteer in medical clinics. Ben Nye has led the effort at Treasury to work with two local high schools to bring kids in as interns to the Treasury Department. The possibilities are endless, and if all of us really cared and acted, in my judgement, the aggregate effect could be enormous.

And that is exactly what we need: a true marshaling of national will and effort, and one of the things I have hoped and tried to do is to have some effect on that, that is to say, the unexpected fact of a Secretary of the Treasury discussing the inner cities as a critical aspect of the economic life of this country, I hope will reinforce those who are involved, and maybe spark an interest on the part of some of those who are not involved.

There are programs that work, contrary to some popular conceptions -- federal, state and local. But in an era of tightly constrained budgetary resources, we must choose rigorously and then once we've made our choices, we must have the will to bring these programs to critical mass. There are also very interesting things happening around the country, and some of you know a great deal more about them than I do, in which local community groups have worked with the government programs to create environments in which businesses are making economic choices to come back into the inner cities. I was in Los Angeles not too long ago and met a woman named Juanita Tate, who was working with a community development corporation, which I think was called Concerned Citizens for South Central L.A. What they have done is they have taken a brownfields site, environmentally contaminated site. They have used a program to get that back into some kind of shape. They set up a selection and training program for inner city residents, and by creating this environment, they have now gotten

commitments from developers and manufacturing businesses such that they were going to have an industrial park, and it was fully leased, and all of this was from businesses that have made purely economic decisions to locate in the inner city, instead of going elsewhere. Those are the kinds of programs that we at Treasury are trying for, results we are trying to understand, because if you can figure out how that sort of thing worked, then you can try to replicate it around the country.

To start with however, success with our inner cities requires sustained economic growth that creates jobs and through a high level economic activity, increases standards of living, because of the demand for labor that accompanies a high level of growth. I think too often those focused on the issues of the inner city, issues of the poor do not focus adequately on the imperative of a good economy for their purposes. Conversely, I also think that too often those who are focused on creating a good economy do not adequately recognize all else that is needed to overcome poverty.

Today, America is in the midst of a sustained economic recovery and has the best conditions we have seen in at least 30 years: strong job creation, low unemployment, low interest rates, low inflation. Moreover, even in the central cities, the effect is being felt in terms of falling unemployment, and to some extent, increasing standards of living. Having said all that, it is all too apparent that too many people and too many places in our inner cities are in trouble and are not being reached -- or are being reached far too little -- and that far too many people are still caught up in the cycle of poverty that I mentioned before.

The statistics tell us what we already know. The Committee for Economic Development, a respected business policy group, tells us that one third of the neighborhoods in our 100 largest cities are distressed or in danger. The Organization for Economic Cooperation and Development, the OECD, ranks us number one, at the top, of a list of 16 industrialized nations in income disparity. That same study shows that poor U.S. children are poorer than the children in most other Western industrialized nations. This is not a prescription for a healthy economy or a healthy society for any of us.

These are urgent problems. With the welfare bill now law, we must even more urgently ask and answer these questions: Where will the jobs for the poor come from? How do you produce the economic conditions necessary to create them? How do you equip the poor to be job-ready, so that they have the training and social skills to take the jobs once you have figured out how to make the jobs available?

I tend to think of the requisites for moving forward fall into three categories.

The first, and probably most important, is what could, broadly speaking, be called investment in people. And that includes education and training at all levels, not only skill training but social skill training, Head Start, to adult skill and technical training. It includes decent housing, and it includes health care.

The second category is public safety, and the President has made this a high priority through the Brady Bill, the assault weapons ban and the program to put police back on the streets. Public safety is a precondition to economic activity.

The third is access to private sector capital and other measures to create economic activity in the inner cities. This has received relatively little public attention, but is critical to revitalizing America's distressed cities.

The last two decades have seen enormous innovations in finance and in the financial markets. Ideas that were unknown on Wall Street have now become commonplace. Financial markets in the United States are today the most innovative, the broadest and deepest in the world.

But, having said all that, we still have a severe shortage of financial institutions and a shortage of credit to create housing and jobs in the inner city. Robert Kennedy once said, "To ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are left to stand aside."

The Treasury Department has been deeply and energetically involved in bringing its broad-based experience in capital markets and financial services to bear on the inner city, and we have pursued action, not rhetoric, on an eight point program which I'd like to very briefly discuss with you.

Step one was to reform and thereby make more effective the Community Reinvestment Act, which encourages banks to provide capital throughout the community to creditworthy borrowers. After having reformed this program, we then had to fight off a serious congressional effort to eviscerate or undermine the CRA.

The second step was to make the Low Income Housing Tax Credit permanent. And then to defend that credit against congressional efforts to eliminate it.

The third step is to follow through on President Clinton's call in 1992 for a nationwide network of community development banks. We have now put in place a community development bank program. We have begun the first grants to institutions around the country. I think it is an enormously promising program. We are fighting to increase the funding, and last year, we had to stave off a congressional effort to defund the community development bank program.

The fourth is an idea we borrowed from abroad. The first lady came back with this idea when she traveled to Asia and that is expand micro-enterprise loans. Those are very small loans to people who want to set up very small private businesses in the inner cities. We think it is a very promising idea and we are promoting it through our community development bank program.

The fifth step is a proposed new tax incentive to clean up abandoned industrial properties in economically distressed areas -- so called brownfields tax incentives. When we've ask mayors, "What would you most like us to do?" this has tended to be the number one item on their lists, to provide the tax incentives to put environmentally contaminated areas in the inner cities back into productive use. We have proposed a \$2 billion dollar program. We estimate that would give us \$10 billion in private leverage, and that we can resurrect 30,000 brownfields sites around the country.

Sixth, we've introduced legislation for 100 new Empowerment Zones and Enterprise Communities. Let me add one comment on that program, if I may. When we started out on that program, I discussed it with the Vice-President. I said, "I wonder how much good this is really going to do." He said, "In addition to all else, one of the things that you will see it do, is you will see it draw together the various components of these communities as they apply for these grants. And it will have enormous effect, even on the communities that lose." I was skeptical. He turned out to be right, and that has been one of the great by-products of this program.

Seventh, something that I have personally gotten myself quite involved in, is to try to increase the involvement of the private sector in mentoring private business. It is all well and good to have access to capital, all well and good to try to better enable the residents of the inner cities, or those who want to come into the inner cities to do business to set up small businesses, although we all know the failure rate of small businesses is fairly high under the best of circumstances, and these are not necessarily the best of circumstances. Therefore, it seemed to us, that what we should do is to encourage business to provide on a pro-bono basis mentoring for these small businesses. There is a lot of that going on around the country, and we want there to be more going on around the country.

Number eight is still very much a work in progress. I'm not sure that this is something we can figure out how to do. But we are making a joint Treasury and Commerce effort to see if we can create secondary markets for the loans to the inner cities that are on the books of public and private institutions. For if we can do that, they we can enable these institutions to sell those loans, receive cash back, and take that cash and lend it once again into the inner cities. In other words, we can recycle the capital that is available for inner cities, and by doing so substantially increase the available capital for inner cities. Intellectually and practically this is a very tough challenge. We have not yet figured it out, but I hope that with the fullness of time, we will get an effective program in place.

Most of these programs have been under attack by some in Congress, as I mentioned a moment ago, including efforts to eviscerate CRA and to eliminate the low income housing tax credit and the community development bank program. We have fought vigorously against those efforts and successfully. My hope is that as we go forward now, there will be much more of an effort to reach common ground, between ourselves and the Republican majority, and that as consequence we will move constructively on balanced budget and other areas and

the efforts to undermine these kinds of programs will be a thing of the past. In any event, I believe we must do all possible both to defend these programs, and for the programs that work, to expand them.

Let me also mention a recent piece of legislation that has not attracted any attention, but could have significant economic and social effects. Last year, Congress, in an effort to save money, ordered, and I think rightly, that all federal payments (except tax refunds) be made electronically by 1999. However, and here is the nub of the problem, there are approximately 10 million Americans who receive Social Security, veterans, or other government checks and don't have bank accounts. So, we at Treasury have to figure out how to arrange for electronic funds transfer for those ten million people, the 10 million "unbanked." Many of whom, by the way, today use expensive check cashing services to get hold of cash, which is in itself a disadvantage to them. If we can figure out a way to get them into the banking system for the first time, not only will it give them a more efficient way to cash checks and access to other financial services, but it may also encourage people to save, to plan financially, and therefore, to improve their economic life over time. It is, we think, a real opportunity to have an effect on a very large number of people in the inner city through the implementation of the electronic funds transfer legislation of last year.

Let me conclude, if I may, by returning to where I began. The President, as I said, is going to be fighting to complete the job of welfare reform: to fix critical elements of the welfare bill and to implement his welfare-to-work jobs initiative. And more broadly, we will all be working together in the administration to move forward on the programs that equip the residents of the inner city for the economic mainstream, that improve public safety, and that increase access to capital. If you take all this together and bring it to critical mass, I believe it is a strategy that does give us the opportunity to make a real break from the past and truly bring America's distressed communities into the economic mainstream.

These tasks are urgent and now, when America is enjoying a durable economic recovery, is the time to address these tasks in a vigorous way. The adage is right -- fix the roof when the sun is shining.

If we make the right decisions in our public and private sectors, in my view, and those right decisions include dealing with what I described a moment ago as the very central problem of our domestic society, I believe this country, with its many economic strengths, can have a robust economic future for as far in the years ahead as one can see. But to realize that potential, we must, for all of our sakes, band together to overcome a historical legacy, the problems of our inner cities and to bring the residents of the inner cities into the economic mainstream. It won't be easy; it won't be quick; but it can be done, and it must be done, again, for the benefit of all of us.

Thank you.



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 16, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,020 million of 26-week bills to be issued December 19, 1996 and to mature June 19, 1997 were accepted today (CUSIP: 9127944N1).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	4.97%	5.17%	97.487
High	4.99%	5.19%	97.477
Average	4.99%	5.19%	97.477

Tenders at the high discount rate were allotted 41%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$42,363,695	\$13,019,545
Type		
Competitive	\$34,861,600	\$5,517,450
Noncompetitive	<u>1,130,628</u>	<u>1,130,628</u>
Subtotal, Public	\$35,992,228	\$6,648,078
Federal Reserve	3,491,067	3,491,067
Foreign Official		
Institutions	<u>2,880,400</u>	<u>2,880,400</u>
TOTALS	\$42,363,695	\$13,019,545

4.98 -- 97.482

AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 16, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,006 million of 13-week bills to be issued December 19, 1996 and to mature March 20, 1997 were accepted today (CUSIP: 9127944C5).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	4.74%	4.86%	98.802
High	4.77%	4.90%	98.794
Average	4.76%	4.88%	98.797

Tenders at the high discount rate were allotted 25%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$47,614,159	\$13,006,259
Type		
Competitive	\$42,052,264	\$7,444,364
Noncompetitive	<u>1,434,852</u>	<u>1,434,852</u>
Subtotal, Public	\$43,487,116	\$8,879,216
Federal Reserve	3,473,243	3,473,243
Foreign Official		
Institutions	<u>653,800</u>	<u>653,800</u>
TOTALS	\$47,614,159	\$13,006,259

4.75 - 98.799

RR-1412



**Engaging Abroad for a Stronger Economy At Home**

Remarks by

**Jeffrey R. Shafer**

**Undersecretary for International Affairs**

**Baton Rouge, Louisiana**

**December 13, 1996**

It is a pleasure to be here in Baton Rouge today to represent the Treasury at this important conference on tax reform.

Let me say at the outset that I am not a tax specialist, I am an economist. What I would like to talk about today are some of the broad issues that will shape our future and should guide our thinking on tax and economic matters. We live in a world where distances are shrinking and borders are expanding. So a global perspective is essential. But I want to keep squarely in our sights, our interests as Americans. In particular, I would like to talk about what we in the administration are doing to open up markets abroad, why international engagement is important to strengthening those markets and what we must do at home to take full advantage of more open and more dynamic markets abroad. Tax policy is an important tool in dealing with the latter and I'll have a few words to say about how it fits in.

**I. Opening Up Markets Abroad**

Here in Louisiana, I doubt I have to tell anyone about how important trade is to the American economy

A simple story illustrates this point. Some time ago, I was asked by Senator Breaux to look into financing by the Ex-Im bank of a development project in Ghana. The project involves building generators to provide electricity in Ghana. And you might wonder why people here in Louisiana were concerned about something taking place half way around the world.

The reason was that the project involves mounting generators on barges and those barges will be built right here in Louisiana. The financing was straightened out and the project is on track. And as the upshot, if all goes well, people in Ghana will enjoy electricity who didn't before, and jobs will be created here in Louisiana.

But this area's stake in trade is much broader. In fact, today, the Ports of South Louisiana, New Orleans and Baton Rouge are the country's largest, handling more freight than

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the ports of Houston, New York and Valdez, Alaska combined.

Progress in opening up markets that will buy American exports is of central importance to our economy. Our objective must be to insure that foreign governments dismantle trade restrictions and that we in government provide cost-effective support for American business.

You all know how committed this Administration has been to opening markets through trade agreements -- completing the Uruguay Round, or through our Framework Agreement with Japan, which is bringing Japanese market-barriers down way down or through NAFTA. The critical priority now is to move forward on the vision to create a free trade area throughout the Americas.

Without doubt, Louisiana is particularly well positioned to take advantage of freer trade. One of the world's fastest growing markets lies right on the region's doorstep. That market is Latin America. To give you an idea of the size of this market:

- Chile, with 14 million people, buys more from us than India with 920 million.
- We sell more to the countries that make up the common market of MERCOSUR (Brazil, Argentina, Uruguay and Paraguay) than we do to China.
- We sell about as much to Costa Rica, with three million people, as we do to all of Eastern Europe, with about 100 million.

All told Latin America and the Caribbean purchased some \$92 billion of American goods in 1994, almost as much as did the European Union. These exports support hundreds of thousands of American jobs. The markets of this hemisphere will grow enormously as the process of reform continues, and as prosperity continues to spread in our hemisphere. Export markets are dramatically increasing opportunities for US firms.

- U.S. firms now export more than \$800 billion, enough to support more than 10 million U.S. jobs. And these are good jobs that pay roughly 15 percent more than average, non-trade jobs.

## **II. Strengthening Markets Through International Engagement**

Opening up markets that have been closed to American products is one way to strengthen America's economy. But we are also looking for ways to promote growth in the size of these markets.

The Treasury is expanding its network of relationships in which we can push for pro-growth policies. We've long been engaged with Europe and Japan in the G-7, the G-10 and the OECD. But the fastest growing markets now are elsewhere in Asia and in Latin America. We want to see this growth sustained and to have our workers and businesses benefit from it. We want to see Latin American countries break out of the cycles of growth and crisis. We want to see Asian economies break free of the constraints of inadequate infrastructure. This

calls for sound monetary and fiscal policies, for financial market development and for financial market supervision to keep instability in check. We're working on these issues in APEC, with countries around the Pacific and in the Committee on Hemispheric Financial issues set up after the Miami Summit of the Americas.

Indeed, it was in New Orleans that the Financial Ministers of the Americas met last spring to work on these issues together.

Bilaterally, my tax policy colleagues are also actively negotiating new and updated tax treaties.

- We recently concluded a treaty with Switzerland, culminating a 17-year effort to update that treaty.
- And, we recently signed our first tax treaty with Thailand, a process in which we overcame what, at first, appeared to be significant differences.

This engagement is helping to strengthen support for pro-market policies, for pro-savings measures, for privatization for balanced budgets, for low-inflation--in short, for pro-growth policies. But countries need support to follow through and we need to leverage our scarce money to secure this support.

The single best way we have to leverage our efforts is through organizations where we play a predominant role. The international financial institutions such as the World Bank are outstanding examples of organization that give us a huge return on a contribution of only about one tenth of each cent that the federal government spends. These organizations embody the values that we believe in. And around the globe, they have helped reform government policies and strengthen markets--markets which are now providing enhanced opportunities for US firms.

- Investment in these bodies has proven extremely cost effective.
- The multilateral development banks are leveraged ways for America to accomplish its economic security objectives.
  - On average, for every dollar we devote, we see four dollars of effects.
  - Because of their leverage, the IFIs account for well over half of all overseas assistance in crucial areas like environmental protection, health, and support for privatization.
  - As the largest shareholder in these institutions, we are well-positioned to insure that their policies conform with ours.

In addition, the International Financial Institutions can help reduce the risks that lie overseas.

They can reduce the risk of war by creating the conditions of peace. Moreover, many other ills including money laundering, drug trafficking, and international crime flourish when

the effective functioning of nation states breaks down. All of these are exacerbated when poverty spurs on desperate populations, or economic malfunctioning destroys the governmental institutions which anchor the rule of law.

While it would be the naive to think that wealth alone makes nations happy, is it an accident that after a half-dozen wars in a hundred years, Europe enjoyed a long period of peace after 1945?

I would argue that Europe's stability since 1945 has much to do with the economic vision shown on both sides of the Atlantic after the war. Today, as we look to those regions that remain essential for American security, we must draw on that same vision.

It is clear, that the prospects for stability in Eastern Europe and the former Soviet Union have much to do with those vast lands making a successful transition to market economics and prosperity.

For example, they are playing the central role in guiding Russia and the other nations of the former Soviet Union to market-based prosperity, and with it, democracy.

It is very much in our national security interest, and must be a paramount goal of that interest, to anchor the economic foundations on which foreign nations' stability and cohesion rest. While some oppose support of the international financial institutions, this administration is committed to pursuing this leveraged means to help not only the rest of the world, but America itself by strengthening overseas markets and improving our economic security.

### **III. Preparing At Home For the Global Economy**

This Administration has been fully committed to a policy of international engagement. The President has made it clear that he believes in leadership, not retreat in the international arena and that we have nothing to fear from the rest of the world.

But to guarantee future leadership, we must take the steps we need at home to preserve those sources of advantage in order to negotiate economically from a position of strength.

- That means first and foremost investing in our human capital and giving people the tools they need to compete on a favorable playing field with those abroad.
- It means encouraging savings to give American business the capital it needs to invest in plant and equipment that make people more productive and able to command higher salaries.
- And it means investing in technology, the catalyst for economic growth.

These three ingredients, people, capital and technology are what economists of all political stripes agree are the components of growth. And they are, to a large degree, what we are talking about when we look at our budget and system of taxes.

Accordingly, the President has put forth a number of tax initiatives to promote investment in people, formation of capital and better technology.

### **People**

The President has fought to save existing investments in education and has put forth new ones. For example, he has proposed...

- a \$10,000 tax deduction for post secondary school education.
- a \$1,500 tuition tax credit for the first two years of post-secondary education; and
- a ten percent income tax credit for small business for employee education and training; and
- for employees, a permanent extension of the Section 127 exclusion for employer-provided educational assistance.

To help move people from welfare to work, the President has proposed a new welfare-to-work tax credit for employers that hire certain long-term welfare recipients. Under the proposal...

- Employers could receive a credit rate of 50% instead of 35% for eligible workers.
- The credit would apply to the first \$10,000 (instead of \$6,000) of wages and run up to two years.
- Eligible wages would include certain employer-provided education, health care and dependent care.
- The existing work opportunity tax credit would also be expanded to include adults no longer eligible for food stamps under the welfare reform bill.

### **Savings and Capital**

The President, as you well know, has brought the budget deficit down four straight years in a row on the way to zero. And he's fought against radical plans that would burst a hole in the deficit. Reducing the deficit frees up capital for investment and tends to lower long term interest rates, making capital more available to American companies.

Having cut our national rate of dis-savings, however, we must now boost our rate of personal savings, particularly as the Baby Boomers prepare to retire.

- The President's Retirement Savings and Security Act would begin the work of raising saving and enhancing pension coverage to make sure we have the funds needed to invest for our future by i) expanding pensions, ii) increasing portability, and iii) enhancing protections, so that hard-working Americans do not have to worry about whether their retirement savings will be there when they need them.
- A new Treasury investment vehicle, inflation indexed securities which will debut next month, also promise to help Americans save for their future by guaranteeing them a fixed level of income or principal value after inflation.

The major asset of many American families is their home.

- The President has proposed a targeted proposal that provides an exclusion of up to \$500,000 of capital gain for the sale of a principal residence for married taxpayers filing jointly or \$250,000 for other taxpayers.
  - This proposal would make it easier for people to decide to sell their home when they have to move for any reason.
  - We estimate that it would cut the number of taxpayers paying capital gains tax on residences from about 150,000 per year to less than 10,000 per year or only about one quarter of one percent of all housing sales.

### **Technology**

It's widely agreed that technology is responsible for up to half of economic growth.

- Accordingly, we continue to support extension of the R&E tax credit, fought to save funding for programs such as the Advanced Technology Program, and are studying other ways to accelerate technology development.

### **Small business**

Let me add that the President's 1997 budget also proposed ways to help small business including...

- Estate tax relief by increasing the amount of property eligible for a favorable rate from \$1.0 to \$2.5 million as well as other improvements:
- And we were successful in raising the allowance for the expensing of investment in depreciable property from \$17,500 up to \$25,000.

These ideas will advance an economic strategy that has been producing great results:

- Export growth has averaged 6.3 percent yearly since 1992, more than double GDP growth.
- America has generated almost eleven million new jobs, giving us a 5.4 percent unemployment rate -- down from 7.3 percent when the President took office, the lowest rate in years.
- Wages are rising, at a 3.9% annual rate, but with no indication that inflation is starting to heat up as a result. In fact core inflation at 2.8% is running below last year's figure.
- Our continuing trade deficit, even with strong export growth, is a sign that we need to finish the job of balancing the budget and saving more to meet our investment needs without incurring the need to borrow abroad. The President's initiatives move us in just this direction.

### **Conclusion**

In conclusion, the global economy offers new and immense opportunity. But we must not take the adoption of free market principles by more and more nations for granted.

The Twentieth century has been called the American Century precisely because it was a time when we looked outward and fought hard for market principles. By continuing to look outward and to working to keep markets open, we can help guarantee that the next century will be an American century as well.

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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EMBARGOED UNTIL 2:30 P.M.  
December 17, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately \$26,000 million, to be issued December 26, 1996. This offering will provide about \$1,250 million of new cash for the Treasury, as the maturing weekly bills are outstanding in the amount of \$24,743 million.

Federal Reserve Banks hold \$7,029 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$4,933 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1414

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED DECEMBER 26, 1996**

		December 17, 1996
<b>Offering Amount</b> . . . . .	\$13,000 million	\$13,000 million
<b>Description of Offering:</b>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 4D 3	912794 2R 4
Auction date . . . . .	December 23, 1996	December 23, 1996
Issue date . . . . .	December 26, 1996	December 26, 1996
Maturity date . . . . .	March 27, 1997	June 26, 1997
Original issue date . . . . .	September 26, 1996	June 27, 1996
Currently outstanding . . . . .	\$11,549 million	\$19,596 million
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

**The following rules apply to all securities mentioned above:**

**Submission of Bids:**

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

**Maximum Recognized Bid  
at a Single Yield** . . . . .

35% of public offering

**Maximum Award** . . . . .

35% of public offering

**Receipt of Tenders:**

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |



AUCTION  
RESULTS

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 18, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for \$18,250 million of 2-year notes, Series AN-1998, to be issued December 31, 1996 and to mature December 31, 1998 were accepted today (CUSIP: 9128272D3).

The interest rate on the notes will be 5 3/4%. All competitive tenders at yields lower than 5.874% were accepted in full. Tenders at 5.874% were allotted 16%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 5.874%, with an equivalent price of 99.769. The median yield was 5.850%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.800%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$40,633,658	\$18,250,058

The \$18,250 million of accepted tenders includes \$1,340 million of noncompetitive tenders and \$16,910 million of competitive tenders from the public.

In addition, \$1,450 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$875 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

## DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE  
December 18, 1996

Contact: Howard Schloss  
(202) 622-2910

## RUBIN NAMES MICHAEL FROMAN TREASURY CHIEF OF STAFF

Treasury Secretary Robert E. Rubin announced Wednesday he has named Michael B.G. Froman as Chief of Staff of the Treasury Department, replacing Sylvia Mathews.

"Michael Froman has made tremendous contributions at Treasury and the NEC," Secretary Rubin said. "He will be a great asset as Chief of Staff. I will depend upon him heavily to continue to play a major role in policy making and the day-to-day operation of the Treasury Department as we embark on the next four years of this administration."

Mr. Froman has served as Treasury Deputy Assistant Secretary (Eurasia and the Middle East) in the Office of International Affairs since December 1995. From January 1993 to December 1995, he was Director for International Economic Affairs at the National Economic Council and the National Security Council at the White House. From September 1992 to January 1993, Mr. Froman served in the White House Office of Economic Policy. Mr. Froman has also worked for the American Bar Association's Central and East European Law Initiative, the European Commission, the Departments of State and Defense and practiced law in the District of Columbia and Tokyo, Japan.

Mr. Froman graduated summa cum laude from Princeton University with a B.A. in Public and International Affairs. He also holds a doctorate in international relations from Oxford University and is a magna cum laude graduate of Harvard Law School where he was an editor of the Harvard Law Review and a staff member of the Harvard International Law Journal. Mr. Froman was born and raised in San Rafael, CA.

Secretary Rubin also named Sandra K. Mancini to the position of Deputy Chief of Staff. She has been at Treasury since July 1994 and is currently Senior Advisor to the Chief of Staff and White House Liaison. Previously Ms. Mancini worked at the National Economic Council at the White House and at the Presidential Transition Headquarters. She holds a B.A. and J.D. from the Catholic University of America in Washington, DC. Ms. Mancini is originally from Scotch Plains, N.J.



**THE FDIC IMPROVEMENT ACT OF 1996:  
WHAT HAS WORKED AND WHAT HAS NOT**

**Richard Scott Carnell  
Assistant Secretary of the Treasury  
for Financial Institutions**

**Brookings Institution Conference on  
FDICIA: Bank Reform Five Years Later  
and Five Years Ahead  
December 19, 1996**

The initial response to the FDIC Improvement Act of 1991 was chilly, to say the least. Treasury Secretary Brady called FDICIA a "pale shadow of the fundamental reforms . . . that the nation's banking system so badly needs." The *Wall Street Journal* reported the widely held view that FDICIA "may undermine banks further." President Bush criticized the legislation as "do[ing] little more than provide critical funding to the Bank Insurance Fund," and he warned that "[t]his shortsighted congressional response to the problems we face increases taxpayer exposure to bank losses." The December 19 enactment date -- three weeks after Congress adjourned -- in part reflected the President's decision to sign the bill privately, with no media event and no champagne. History does not record whether he held his nose.

Many bankers denounced FDICIA as the epitome of regulatory burden. Banking lawyers and consultants characterized it as gratuitously punitive. Asked about FDICIA, Federal Reserve Governor John LaWare "could only shake his head," saying "How they had the audacity to call it an 'improvement act' I'll never understand." And my good friend Karen Shaw declared: "This legislation creates a system of arbitrary, Draconian and inflexible regulatory criteria designed to ensure that no bank will ever again fail. In pursuit of this Quixotic goal, the legislation will ensure that while few banks will ever fail, none will ever prosper."

Well, a funny thing happened on the way to the fiasco.

Depository institutions have prospered since FDICIA's enactment. For example, commercial banks' return on assets has more than doubled. It was 0.53 percent in 1991 and 0.93 percent in 1992, and has ranged between 1.15 percent and 1.20 percent since then.



Banks' return on equity rose from 7.94 percent in 1991 to 14.4 percent this year. Banks' ratio of core capital to tangible assets increased more than 20 percent, from 6.48 percent in 1991 to the current level of 7.79 percent. The percentage of commercial banks reporting net losses plummeted by two-thirds, from 11.6 percent in 1991 to 3.75 percent now. Aggregate commercial bank net income rose to a record \$32.0 billion in 1992 (surpassing the previous high of \$24.8 billion set in 1988) and went on to set new records in each successive year: \$43.1 billion in 1993; \$44.6 billion in 1994; and \$48.8 billion in 1995.

Not only has bank profitability increased but failures and problem cases have fallen to a tiny fraction of prior levels. In 1991, the FDIC closed or bailed out 127 institutions insured by the Bank Insurance Fund, with \$63 billion in assets. In 1992, the agency resolved another 122 failed BIF members, with \$44 billion in assets. By contrast, so far this year, failure has claimed 5 BIF-member institutions, with \$190 million in assets. Likewise, the FDIC's 1991 problem list included 1,089 BIF-member institutions, with over \$600 billion in assets -- one-sixth of the assets of all BIF members. Today, that list has shrunk to 93 institutions, with \$8 billion in assets -- less than 0.2 percent of the assets of all BIF members. BIF's fund balance rose from negative \$7 billion at the end of 1991 (negative 0.36 percent of insured deposits) to over \$26 billion this past September (1.32 percent of insured deposits).

As George Kaufman declared here four years ago, "If this be death by regulation, what a way to go!"

Now I'm certainly *not* suggesting a simple one-to-one correlation between this turnaround and FDICIA's reforms. Depository institutions benefited greatly from a favorable interest-rate environment during 1992 and 1993, and from the economic recovery of the past four years. Moreover, we should see FDICIA itself as part of a process that began with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and included the tightening of bank supervision in 1989-91. That tightening reduced losses and increased profits in the ensuing years. Depository institutions also benefited from the closure of hundreds of insolvent thrift institutions that had bid up rates paid on deposits, bid down rates charged on loans, and undercut credit standards.

### **FDICIA: What Is Important and What Is Not**

FDICIA differed from most previous U.S. banking legislation in that it consciously sought to change the incentives confronting depository institutions' owners, managers, and regulators. Specifically, it sought to align those incentives more closely with the interests of the federal deposit insurance funds and the taxpayers.

As I and others have explained on previous occasions,<sup>1</sup> the pre-FDICIA system of

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<sup>1</sup>For a detailed discussion of how FDICIA sought to ameliorate perverse incentives, see Carnell, "A Partial Antidote to Perverse Incentives: The FDIC Improvement Act of 1991," *Annual Review of*

federal deposit insurance and depository institution regulation inadvertently encouraged depository institutions' owners, managers, and regulators to act in ways that harmed the insurance funds. It created perverse incentives for owners and managers to take excessive risks and for regulators to forbear and overextend the federal safety net. FDICIA's most important reforms -- such as prompt corrective action, risk-based premiums, and least-cost resolution -- represent a coherent effort to correct those perverse incentives.

These incentive-oriented reforms constitute the heart of FDICIA. They are what is important in the Act. And, to the extent that they have been implemented, I believe that they have worked. They have helped create a better set of incentives. They have reduced the potential for moral hazard. And they have helped regulators be more faithful agents of the taxpayers.

### **Regulators' Implementation of FDICIA's Key Reforms**

One of the challenges of our topic this morning -- what in FDICIA has worked and what has not -- is that we have not gone through a full economic cycle with FDICIA in effect. FDICIA became law as the economy was touching bottom during the last recession. The two years preceding its enactment also saw significant tightening of bank supervision. Moreover, prompt corrective action took effect one year after enactment, when the economy was already beginning to recover. So we don't know for certain how things will work. We can't know for certain -- that's why we call it the future. So far, so good.

But I'm troubled by the argument that FDICIA's limits on regulatory discretion will have draconian consequences -- and pose an acute risk of a meltdown-- the next time that the financial system comes under stress.

Let's look at the argument more closely. It has two fundamental assumptions. First, that provisions like prompt corrective action and least-cost resolution impose such severe constraints on regulatory discretion that they will, all too often, force regulators to take actions that are self-defeating. And second, that regulators can do nothing to avoid getting caught in such a bind. In my view, neither assumption is true.

I'll focus here on the first assumption, as applied to prompt corrective action. FDICIA's prompt corrective provisions impose relatively modest constraints on regulatory discretion.<sup>2</sup> Only a few of the rules are categorical. For example, an undercapitalized institution cannot pay dividends. Most of the rules involve some degree of regulatory

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*Banking Law* 12 (1993): 317-71; and "The Culture of Ad Hoc Discretion," in *Assessing Bank Reform: FDICIA One Year Later*, ed. George G. Kaufman and Robert E. Litan (Washington, D.C.: The Brookings Institution, 1993).

<sup>2</sup>Carnell, "A Partial Antidote to Perverse Incentives: The FDIC Improvement Act of 1991," *Annual Review of Banking Law* 12 (1993): 349-50.

discretion -- generally involving authority to make exceptions if following the rule would not help avoid or minimize loss to the insurance fund. Quite a few rules are purely discretionary. So critics err in characterizing FDICIA as a mechanistic attempt to eliminate regulatory discretion.

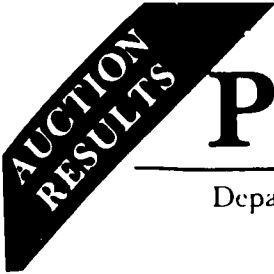
The fact is that prompt corrective action, like FDICIA's other key reforms, relies heavily on regulators and regulatory discretion. That reliance follows naturally, and in some ways unavoidably, from the use of conventional historical-cost accounting data to define depository institutions' capital for purposes of prompt corrective action. Capital is intrinsically a lagging indicator of problems. Traditional historical-cost accounting principles accentuate the lag. The upshot is uncertainty about a troubled institution's market value. Because of that uncertainty, prompt corrective action provisions generally give regulators some leeway to make a judgment about the institution's condition and prospects and take actions sooner, or later, than accounting numbers might suggest. By the same token, the statute did contemplate that regulators, in the course of implementation, would develop some limits on their own discretion beyond the minimum prescribed by the statute.

Perhaps the most striking common thread in the regulations implementing FDICIA's key reforms is their minimalism. They generally do the minimum that the statute requires, and no more. In many ways, this minimalism is not surprising. To begin with, there is still remarkably little appreciation of the ways in which unconstrained discretion, coupled with the federal safety net, tended to create perverse incentives for regulators to forbear and overextend the safety net. Thus it's natural for regulators, like other people, to resist limits on their discretion.

Second, FDICIA became law also during a crisis in the financial system and (as previously noted) during a recession. It took a crisis to overcome normal complacency -- and the normal inertia of the legislative process. But regulators naturally wanted to take care not to exacerbate the financial crisis or credit-availability problems. Hence a reinforced interest in keeping their options open.

Third, regulators accorded great weight to bankers' complaints about regulatory burden. These complaints in part reflected a reaction to FIRREA and the heightened stringency of bank supervision. They also reflected bankers' perception that they were, in effect being penalized for the excesses of the thrift industry. As a result, regulators tended to be cautious and sparing in implementing FDICIA's key reforms.

As a matter of history, the minimalist implementation of those reforms is understandable enough. But what of the future? FDICIA contemplated that regulators would continually strive to strike a better balance between the costs and benefits of safety-and-soundness regulation. I believe that we need to be careful to make sure that we do not squander the beneficial incentive-effects of FDICIA's key reforms by succumbing to complacency -- and thereby leaving depository institutions needlessly vulnerable to future stress.



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 19, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for \$12,508 million of 5-year notes, Series R-2001, to be issued December 31, 1996 and to mature December 31, 2001 were accepted today (CUSIP: 9128272E1).

The interest rate on the notes will be 6 1/8%. All competitive tenders at yields lower than 6.165% were accepted in full. Tenders at 6.165% were allotted 27%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.165%, with an equivalent price of 99.830. The median yield was 6.150%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.110%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$34,899,190	\$12,507,580

The \$12,508 million of accepted tenders includes \$412 million of noncompetitive tenders and \$12,096 million of competitive tenders from the public.

In addition, \$850 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$600 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

TREASURY



NEWS

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FOR IMMEDIATE RELEASE  
December 23, 1996

Contact: Darren McKinney  
(202) 622-2960

### TREASURY ACTS AGAINST FLOW OF DIRTY MONEY TO COLOMBIA

Treasury Under Secretary for Enforcement Raymond W. Kelly said Monday that federal authorities investigating a money laundering method in the New York metropolitan area have seized more than \$29 million in illicit funds being sent to Colombia.

The anti-money laundering initiative was instituted against money remitters involved in specific transactions with Colombia. About 3,500 money remitter agents in the New York metropolitan area have been subject to reporting requirements under the geographical targeting order, known as a GTO.

Issued under the authority of the Bank Secrecy Act (BSA), a key anti-money laundering law, a GTO is used to impose stricter reporting and recordkeeping requirements on specified financial service providers in a certain geographical area for a limited time period. The GTO requires the remitters in question to obtain and report identifying information about the parties to all remittances of cash to Colombia of \$750 or more. The order will remain in place until February 2, 1997.

The GTO was requested by U.S. Attorneys for the Eastern District of New York, the Southern District of New York and the District of New Jersey, along with senior enforcement officials of the U.S. Customs Service and Internal Revenue Service. It is designed to assist the El Dorado Task Force, a multi-agency anti-money laundering task force comprising federal, state and local law enforcement authorities. The request for the GTO was made to the Treasury's Financial Crimes Enforcement Network (FinCEN), which administers the BSA.

"Money remitters in the New York area funneled more than \$1.5 billion to Colombia last year. Colombian drug cartels have been proven to use money remitters in the New York metropolitan area to launder their drug profits," Mr. Kelly said. "Treasury Secretary Rubin has made fighting money laundering a top priority of this department. The results of the New York GTO provide Treasury with an opportunity to make a real difference in the fight against money laundering by moving quickly and decisively against abuses of the money remitter industry."

Remitters are businesses which receive money from customers and remit these funds to designated recipients, often located overseas. Evidence gathered by law enforcement identified the state-licensed money remittance companies and their agents in the New York metropolitan area that were particularly vulnerable to abuse by cartel money launderers.

RR-1419

(more)

*For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040*





Much of the foundation to justify the GTO was laid during investigations of several money remitters and their agents in New York. On July 24, 1996, Vigo Remittance Corp. pleaded guilty to structuring financial transactions to avoid standard BSA reporting requirements. Earlier this month, Remesas America Oriental was indicted for activities related to money laundering. Numerous other agents and their employees have been successfully prosecuted for money laundering over the past few years.

“In addition to virtually halting the movement of narcotics proceeds to Colombia through most New York area money remitters, including many remitters not covered by the GTO, the GTO confirmed the suspicion that the proceeds sent through these money remitters were controlled by Colombian cartels,” Mr. Kelly said.

The GTO has dramatically reduced the flow of narcotics proceeds through money remitters in New York City to Colombia. For example:

- Several of the transmitters targeted under the GTO have stopped sending funds to Colombia.
- Many others are sending significantly lower amounts than they were before the GTO.
- Currency seizures have dramatically increased. Seizures from JFK Airport during the first half of the GTO period were nine times higher than they were during the same period in 1995 and seizures have continued at rates significantly higher than they were during comparable periods in past years.

“Based on the success of the GTO, and the analysis that FinCEN is conducting in cooperation with other law enforcement agencies, it is clear that we need to consider other applications of geographical targeting orders, as well as broader, more permanent regulatory steps to address vulnerabilities in the money remitter industry,” said Stanley E. Morris, Director of FinCEN.

TREASURY



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FOR IMMEDIATE RELEASE  
December 23, 1996

Contact: Darren McKinney  
(202) 622-2960

### UNITED STATES-INDONESIA TAX PROTOCOL RATIFIED, IN FORCE

The Treasury Department announced Monday that the United States and Indonesia have exchanged instruments of ratification for a Protocol amending the Income Tax Convention that has existed between the two nations since 1990.

Signed in Jakarta by Secretary of State Warren Christopher and Indonesian Minister of Foreign Affairs Alatas Ali Abdullah on July 24 of this year, the Protocol has since been ratified by both countries and enters into force with today's exchange of instruments.

The Protocol reduces from 15 percent to 10 percent the withholding rates on direct investment dividends, interest payments and royalty payments. The previously higher rates significantly exceeded those found in Indonesia's income tax treaties with other OECD nations, placing U.S. businesses at substantial disadvantage in Indonesia relative to global competitors. The new, lower rates will help level the playing field for U.S. businesses in a region of dynamic economic growth. The lower rates ultimately will benefit both the United States and Indonesia by fostering increased trade and investment between them.

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RR-1420





# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 23, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,008 million of 13-week bills to be issued December 26, 1996 and to mature March 27, 1997 were accepted today (CUSIP: 9127944D3).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> <u>Rate</u>	<u>Investment</u> <u>Rate</u>	<u>Price</u>
Low	4.88%	5.01%	98.766
High	4.93%	5.06%	98.754
Average	4.92%	5.05%	98.756

Tenders at the high discount rate were allotted 3%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$36,854,814	\$13,008,114
Type		
Competitive	\$31,429,731	\$7,583,031
Noncompetitive	<u>1,310,148</u>	<u>1,310,148</u>
Subtotal, Public	\$32,739,879	\$8,893,179
Federal Reserve	3,504,235	3,504,235
Foreign Official		
Institutions	<u>610,700</u>	<u>610,700</u>
TOTALS	\$36,854,814	\$13,008,114

4.89 - 98.764      4.90 - 98.761      4.91 - 98.759



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 23, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,073 million of 26-week bills to be issued December 26, 1996 and to mature June 26, 1997 were accepted today (CUSIP: 9127942R4).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount</u> Rate	<u>Investment</u> Rate	<u>Price</u>
Low	5.06%	5.26%	97.442
High	5.08%	5.29%	97.432
Average	5.08%	5.29%	97.432

Tenders at the high discount rate were allotted 40%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$45,578,901	\$13,073,003
Type		
Competitive	\$37,631,920	\$5,126,022
Noncompetitive	<u>1,043,881</u>	<u>1,043,881</u>
Subtotal, Public	\$38,675,801	\$6,169,903
Federal Reserve	3,525,000	3,525,000
Foreign Official		
Institutions	<u>3,378,100</u>	<u>3,378,100</u>
TOTALS	\$45,578,901	\$13,073,003

5.07 -- 97.437



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

SUMMARY OF TREASURY INFLATION-INDEXED SECURITIES

The Treasury Department has finalized rules setting out the terms and conditions for the new Inflation-Indexed Securities that will be auctioned in January 1997. The final rules, which will be published in the Federal Register, adopt without substantive change the proposed rules that were published for comment on September 27, 1996. Eight comment letters were received in response to the proposed rules. The following is a summary of the key provisions of the final rules and features of the new securities.

- The inflation-indexed securities will be structured similarly to the Real Return Bonds issued by the Government of Canada.
- The interest rate, which is set at auction, will remain fixed throughout the term of the security.
- The principal amount of the security will be adjusted for inflation, but the inflation-adjusted principal will not be paid until maturity.
- Semiannual interest payments will be based on the inflation-adjusted principal at the time the interest is paid.
- The index for measuring the inflation rate will be the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published monthly by the Bureau of Labor Statistics (BLS).
- The auction process will use a single price auction method that is the same as that currently used for 2-year and 5-year Treasury notes.
- The securities will be eligible for stripping into their principal and interest components in Treasury's Separate Trading of Registered Interest and Principal of Securities (STRIPS) program.
- At maturity, the securities will be redeemed at the greater of their inflation-adjusted principal or par amount at original issue. The payment of an additional amount at maturity, if necessary, to ensure that the inflation-adjusted principal plus the additional amount equals the par amount at original issuance is different than the minimum guarantee provision that Treasury was considering in the Advance Notice of Proposed Rulemaking.
- The first auction of inflation-indexed securities, a 10-year note, will be held in January 1997, and quarterly thereafter.
- If, while an inflation-indexed security is outstanding, the CPI is (1) discontinued, (2) in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or (3) in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the BLS, will substitute an appropriate alternative index.
- Regulations addressing the tax treatment of inflation-indexed securities will be issued by the IRS shortly. Generally, the interest payments will be taxable when received, which is consistent with the tax treatment of other Treasury securities. The inflation adjustments to the principal will be taxable in the year in which such adjustments occur even though the inflation adjustments will not be paid until maturity.

December 30, 1996

TREASURY



NEWS

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EMBARGOED UNTIL 12:00 NOON  
December 24, 1996

CONTACT: Office of Financing  
202/219-3350

**TREASURY'S WEEKLY BILL OFFERING**

The Treasury will auction two series of Treasury bills totaling approximately \$27,000 million, to be issued January 2, 1997. This offering will result in a paydown for the Treasury of about \$1,575 million, as the maturing weekly bills are outstanding in the amount of \$28,570 million.

Federal Reserve Banks hold \$7,161 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$5,422 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, as amended) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1423

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED JANUARY 2, 1997

		December 24, 1996
<u>Offering Amount</u> . . . . .	\$13,500 million	\$13,500 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 2N 3	912794 5D 2
Auction date . . . . .	December 30, 1996	December 30, 1996
Issue date . . . . .	January 2, 1997	January 2, 1997
Maturity date . . . . .	April 3, 1997	July 3, 1997
Original issue date . . . . .	April 4, 1996	January 2, 1997
Currently outstanding . . . . .	\$32,615 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- |                               |  |
|-------------------------------|--|
| Noncompetitive bids . . . . . | Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids   |
| Competitive bids . . . . .    | (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.   |
|                               | (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater. |
|                               | (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.   |

Maximum Recognized Bid at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- |                                  |  |
|----------------------------------|--|
| Noncompetitive tenders . . . . . | Prior to 12:00 noon Eastern Standard time on auction day |
| Competitive tenders . . . . .    | Prior to 1:00 p.m. Eastern Standard time on auction day  |

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

federal financing bank NEWS

WASHINGTON, D.C. 20220

Press 202-622-2960  
FFB 202-622-2450

December 27, 1996

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of November 1996.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$58.9 billion on November 30, 1996, posting a decrease of \$2,129.8 million from the level on October 31, 1996. This net change was the result of a decrease in holdings of agency debt of \$1,691.7 million, in holdings of agency assets of \$375.0 million, and in agency guaranteed loans of \$63.1 million. FFB made 14 disbursements during the month of November, and 10 RUS-guaranteed loans were repriced. FFB also received 11 prepayments in November.

Attached to this release are tables presenting FFB November loan activity and FFB holdings as of November 30, 1996.

RR-1424



FEDERAL FINANCING BANK  
NOVEMBER 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. Postal Service	11/4	\$50,000,000.00	11/5/96	5.288% S/A
U.S. Postal Service	11/15	\$150,000,000.00	11/19/96	5.290% S/A
U.S. Postal Service	11/18	\$175,400,000.00	11/19/96	5.426% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Chamblee Office Building	11/8	\$39,837.21	4/1/97	5.367% S/A
Chamblee Office Building	11/15	\$126,319.64	4/1/97	5.355% S/A
Foley Square Office Bldg.	11/22	\$439,036.00	7/31/25	6.531% S/A
Oakland Office Building	11/22	\$3,765.83	9/5/23	6.526% S/A
Atlanta CDC Office Bldg.	11/29	\$3,699.73	9/2/25	6.542% S/A
Foley Square Courthouse	11/29	\$239,459.00	7/31/25	6.542% S/A
Miami Law Enforcement	11/29	\$2,206.08	1/3/22	6.525% S/A
GSA/PADC				
ICTC Building	11/18	\$7,642,334.02	11/2/26	6.572% S/A
RURAL UTILITIES SERVICE				
Alabama Electric #386	11/15	\$4,160,000.00	1/3/23	6.481% Qtr.
Dairyland Power #388	11/21	\$11,772,000.00	12/31/98	5.750% Qtr.
Central Iowa Power #442	11/27	\$3,000,000.00	12/31/29	6.491% Qtr.
@South Miss. Elec. #090	11/27	\$1,378,267.43	1/2/18	6.410% Qtr.
@South Miss. Elec. #090	11/27	\$673,154.65	1/2/18	6.410% Qtr.
@South Miss. Elec. #090	11/27	\$641,992.10	1/2/18	6.410% Qtr.
@South Miss. Elec. #090	11/27	\$119,246.29	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$10,797,836.98	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$1,892,007.66	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$11,836,710.42	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$2,354,285.13	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$3,604,838.64	1/2/18	6.410% Qtr.
@South Miss. Elec. #171	11/27	\$11,913,507.02	1/2/18	6.410% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.  
@ interest rate buydown

FEDERAL FINANCING BANK  
(in millions)

<u>Program</u>	<u>November 30, 1996</u>	<u>October 31, 1996</u>	<u>Net Change 11/1/96-11/30/96</u>	<u>FY '97 Net Change 10/1/96-11/30/96</u>
<b>Agency Debt:</b>				
Export-Import Bank	\$ 1,821.8	\$ 1,821.8	\$ 0.0	\$ 0.0
Resolution Trust Corporation	4,804.4	5,996.2	-1,191.7	-1,191.7
U.S. Postal Service	0.0	500.0	-500.0	-1,500.0
sub-total*	6,626.2	8,317.9	-1,691.7	-2,691.7
<b>Agency Assets:</b>				
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	18,325.0	18,700.0	-375.0	-375.0
DHHS-Health Maintenance Org.	5.5	5.5	0.0	0.0
DHHS-Medical Facilities	18.8	18.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.1	0.1	0.0	0.0
sub-total*	26,623.3	26,998.3	-375.0	-375.0
<b>Government-Guaranteed Loans:</b>				
DOD-Foreign Military Sales	3,231.8	3,244.5	-12.7	-15.4
DoEd-HBCU	0.2	0.2	0.0	0.0
DHUD-Community Dev. Block Grant	37.8	37.8	0.0	-1.4
DHUD-Public Housing Notes	1,561.4	1,626.8	-65.4	-65.4
General Services Administration +	2,341.6	2,342.0	-0.4	9.3
DOI-Virgin Islands	19.9	19.9	0.0	0.0
DON-Ship Lease Financing	1,382.8	1,382.8	0.0	0.0
Rural Utilities Service	16,772.2	16,753.3	18.9	21.6
SBA-State/Local Development Cos.	312.0	315.0	-3.0	-6.4
DOT-Section 511	12.3	12.7	-0.4	-0.4
sub-total*	25,672.0	25,735.0	-63.1	-58.0
	=====	=====	=====	=====
grand-total*	\$ 58,921.5	\$ 61,051.3	\$ -2,129.8	\$ -3,124.8

\*figures may not total due to rounding  
+does not include capitalized interest

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE  
December 30, 1996

Contact: Jon Murchinson  
(202) 622-2960

### TREASURY ANNOUNCES YEAR-END TAX TREATY DEVELOPMENTS

The Treasury Department provided an update Monday on the status of various income tax agreements. Two new agreements entered into force on December 30, 1996, while the termination of two other agreements becomes effective as of January 1, 1997.

Instruments of ratification were exchanged in Washington today with respect to a bilateral tax treaty and protocol between the United States and Kazakstan. The new treaty terminates the application to Kazakstan of the provisions of a tax treaty between the United States and the Union of the Soviet Socialist Republics that was signed June 20, 1973. The new treaty generally will be effective with respect to withholding taxes on February 1, 1997, and for matters other than withholding tax for taxable periods beginning on or after January 1, 1996.

Also on December 30, instruments of ratification were exchanged in the Hague with the Kingdom of the Netherlands with respect to a protocol which would have the effect of phasing out the remaining applicable provisions of a 1948 U.S.-Netherlands tax treaty as extended to the Netherlands Antilles. The treaty is being phased out in such a manner that interest on debt instruments backing Eurobonds issued by Netherlands Antilles subsidiaries of U.S. companies prior to October 15, 1984, will continue to qualify for treaty benefits.

On January 1, 1997, the U.S. tax treaty with Malta and the extension to Aruba of the 1948 U.S.-Netherlands tax treaty shall cease to have effect pursuant to notices of termination delivered in 1995.

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RR-1425



TREASURY



NEWS

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EMBARGOED UNTIL 2:30 P.M.  
December 27, 1996

CONTACT: Office of Financing  
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately \$19,250 million of 52-week Treasury bills to be issued January 9, 1997. This offering will provide about \$350 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of \$18,910 million. In addition to the maturing 52-week bills, there are \$27,781 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold \$12,007 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$5,588 million of the maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold none of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, as amended) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

RR-1426

**HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS  
TO BE ISSUED JANUARY 9, 1997**

December 27, 1996

Offering Amount . . . . . \$19,250 million

**Description of Offering:**

Term and type of security . . . . . 364-day bill  
 CUSIP number . . . . . 912794 4Q 4  
 Auction date . . . . . January 2, 1997  
 Issue date . . . . . January 9, 1997  
 Maturity date . . . . . January 8, 1998  
 Original issue date . . . . . January 9, 1997  
 Maturing amount. . . . . \$18,910 million  
 Minimum bid amount . . . . . \$10,000  
 Multiples . . . . . \$1,000

**Submission of Bids:**

Noncompetitive bids . . . . . Accepted in full up to \$1,000,000  
 at the average discount rate of  
 accepted competitive bids  
 Competitive bids . . . . . (1) Must be expressed as a discount rate  
 with two decimals, e.g., 7.10%  
 (2) Net long position for each bidder  
 must be reported when the sum of the  
 total bid amount, at all discount  
 rates, and the net long position is  
 \$2 billion or greater.  
 (3) Net long position must be determined  
 as of one half-hour prior to the  
 closing time for receipt of  
 competitive tenders.

**Maximum Recognized Bid  
at a Single Yield** . . . . .

35% of public offering

**Maximum Award** . . . . .

35% of public offering

**Receipt of Tenders:**

Noncompetitive tenders . . . . . Prior to 12:00 noon Eastern Standard  
 time on auction day  
 Competitive tenders . . . . . Prior to 1:00 p.m. Eastern Standard  
 time on auction day

**Payment Terms** . . . . .

Full payment with tender or by charge  
 to a funds account at a Federal  
 Reserve bank on issue date

*AT Am... A*

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE  
December 30, 1996

Contact: Jon Murchinson  
(202) 622-2960

### TREASURY TO ANNOUNCE FIRST INFLATION-INDEXED SECURITY AUCTION

The Treasury Department announced Monday that the first inflation-indexed note auction will be held in January, 1997. It is anticipated that the official offering announcement will be released on January 21, 1997, with the auction to be held on January 29, 1997. The inflation-indexed notes will be issued on February 6, 1997 and dated January 15, 1997. Complete details about the offering will be provided in the official offering announcement.

To receive the final regulations from Treasury's automated fax system call (202) 622-2040 and request document number 1428. The regulations can also be accessed on the Bureau of Public Debt's web site: [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov).

The January reference CPI numbers and daily index ratios will be released on Tuesday, December 31, 1996.

-30-

RR-1427

BILLING CODE: 4810-39-W

DEPARTMENT OF THE TREASURY

FISCAL SERVICE

31 CFR Part 356

SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS,  
NOTES, AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR,  
PUBLIC DEBT SERIES NO. 1-93)

AGENCY: Bureau of the Public Debt, Fiscal Service,  
Department of the Treasury.

ACTION: Final rule.

SUMMARY: The Department of the Treasury ("Department" or  
"Treasury") is publishing in final form an amendment to 31  
CFR Part 356 (Uniform Offering Circular for the Sale and  
Issue of Marketable Book-Entry Treasury Bills, Notes, and  
Bonds). This amendment makes changes necessary to  
accommodate the public offering of new Treasury inflation-  
indexed securities by the Department. In addition, the  
amendment makes certain technical clarifications and  
conforming changes. The proposed rule was published for  
public comment on September 27, 1996.

EFFECTIVE DATE: [Insert date of publication in the Federal  
Register.]

ADDRESS: This rule has been made available for downloading  
from the Bureau of the Public Debt web site at the following

address: [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov).

**FOR FURTHER INFORMATION CONTACT:** Ken Papaj (Director), Lee Grandy, Chuck Andreatta or Kurt Eidemiller (Government Securities Specialists), Bureau of the Public Debt, Government Securities Regulations Staff, (202) 219-3632.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

31 CFR Part 356, also referred to as the uniform offering circular, sets out the terms and conditions for the sale and issuance by the Department of the Treasury to the public of marketable Treasury bills, notes, and bonds. The uniform offering circular, in conjunction with offering announcements, represents a comprehensive statement of those terms and conditions.<sup>1</sup>

The Department has decided to offer a new type of security, referred to as a Treasury inflation-indexed security,<sup>2</sup> whose principal value will be adjusted for inflation as measured by the United States Government. The

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<sup>1</sup> The uniform offering circular was published as a final rule on January 5, 1993 (58 FR 412). Amendments to the circular were published on June 3, 1994 (59 FR 28773), March 15, 1995 (60 FR 13906), July 16, 1996 (61 FR 37007), August 23, 1996 (61 FR 43626), and October 22, 1996 (61 FR 54908).

<sup>2</sup> This Part is being revised to accommodate offerings of both inflation-indexed notes and inflation-indexed bonds in order to give the Department the flexibility to issue both types of securities in the future. However, the Department initially plans to offer only one maturity, a 10-year note. Inflation-indexed securities were referred to as inflation-protection securities in the proposed rule.



Department believes the issuance of these new inflation-indexed securities will reduce interest costs to the Treasury over the long term and will broaden the types of debt instruments available to investors in U.S. financial markets.

As explained in more detail below, after considering the comments provided, Treasury has determined that the structure of the inflation-indexed securities will remain unchanged from its description in the proposed rule. The securities will be based, with some modifications, on the model of the Real Return Bonds currently issued by the Government of Canada. The principal of the security will be adjusted for changes in the level of inflation. Semiannual interest payments will be made based on a constant rate of interest determined at auction. The index for measuring the inflation rate for these securities will be the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers ("CPI" or "CPI-U") published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor.

Further, the Department has announced its intention to begin auctioning inflation-indexed securities in January 1997 and quarterly thereafter. The first auction will be of 10-year inflation-indexed notes. Specific terms and conditions of each issue, including the auction date, issue date, and public offering amount, will be announced prior to

each auction. Over time, the Department expects to offer additional maturities of inflation-indexed securities, such as 30-year bonds or shorter-term notes. The Department expects to offer the first additional maturity later in 1997.

The inflation-adjusted principal value of the securities can be obtained for any date by multiplying the stated value at issuance, or par amount, by the index ratio applicable to that date. The index ratio is the reference CPI applicable to a particular valuation date divided by the reference CPI applicable to the original issue date. The inflation adjustment to the principal will not be payable until maturity, when the securities will be redeemed at the greater of their inflation-adjusted principal amount or par amount. The securities will be issued with a stated rate of interest that remains constant until maturity. Interest payments for a particular security will be determined by multiplying the inflation-adjusted principal by one-half of the stated rate of interest on each semiannual interest payment date.

Inflation-indexed notes will be issued with maturities of at least one year but not more than ten years. Inflation-indexed bonds, when offered, will be issued with maturities of more than ten years. The inflation-indexed securities will be sold at discount, par, or premium and will pay interest semiannually. The auctions for inflation-

indexed securities will be conducted as single-price auctions in which competitive bidders will bid in terms of a desired real yield (yield prior to inflation adjustment), expressed as a percentage with three decimals, e.g., 3.230%. The interest rate established as a result of the auction will generally be set at one-eighth of one percent increments that produce the price closest to, but not above, par when evaluated at the highest real yield at which bids were accepted. The offering announcement issued by the Department for each new inflation-indexed security will contain the specific details for that offering.

The inflation-indexed securities will be eligible for the STRIPS program (Separate Trading of Registered Interest and Principal of Securities) immediately upon their issuance by the Treasury.

The securities will also be eligible to serve as collateral for Treasury programs (e.g., Treasury Tax and Loan accounts). Anyone interested in the use of inflation-indexed securities for such collateral purposes should contact the Department's Office of the Fiscal Assistant Secretary for more information. The Department also intends to make components stripped from these securities eligible for collateral at a later date. The Department will notify the public of their eligibility when the valuation of the stripped components for collateral purposes has been determined.

## II. Comments Received in Response to the Proposed Rule

The Department published for public comment a proposed amendment to the uniform offering circular on September 27, 1996,<sup>3</sup> which laid out the proposed structure, design, terms, and conditions of the new inflation-indexed security. The closing date for comments was October 28, 1996. A few minor typographical and technical errors in the proposed rule text and formulas were subsequently corrected and changed in a correction notice published on October 4, 1996.<sup>4</sup>

In developing the proposed rule, the Department took into consideration the numerous comments, suggestions, and recommendations that were received in response to two Advance Notices of Proposed Rulemakings;<sup>5</sup> at more than 30 meetings attended by more than 800 investors, dealers and interested parties in nine cities world-wide; and at a public symposium sponsored by the Department. The Department believes that this extensive discussion with, and participation by, market participants in the design of the inflation-indexed security was extremely useful in developing a new investment product that will have wide acceptance and broad market appeal.

The Department received eight letters from seven

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<sup>3</sup> 61 FR 50924 (September 27, 1996).

<sup>4</sup> 61 FR 51851 (October 4, 1996).

<sup>5</sup> 61 FR 25164 (May 20, 1996) and 61 FR 38127 (July 23, 1996).

commenters in response to the proposed rule.<sup>6</sup> The letters, listed chronologically in order of date received, were submitted by Apex Investment Associates, Inc.; Reed Smith Shaw & McClay; Wrightson Associates; L. Napoleon Cooper (two letters); Robert L. Elgin; HSBC Securities, Inc.; and PSA The Bond Market Trade Association.<sup>7</sup>

Two commenters proposed an entirely different security structure. One of these commenters submitted a proposal that would allow for a new series of federal debt, and would result in a substantially different structure. The other commenter proposed a structure for, and suggested features to be incorporated in, a non-marketable, floating rate, inflation-indexed savings bond. A third commenter expressed support for the process of involving market participants in the design and implementation of these securities, and stated, "as far as the securities themselves are concerned, there is little or nothing we would care to ask be changed." It was this commenter's view, however, that the stripped

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<sup>6</sup> The comment letters are available to the public for inspection and downloading on the Internet, at the address provided earlier in this rule, and for inspection and copying at the Treasury Department Library, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue N.W., Washington, D.C. 20220.

<sup>7</sup> See letters from Alexander A. Lothan, President, Apex Investment Associates, Inc. (September 26, 1996); William Morris, Reed Smith Shaw & McClay (September 27, 1996); Louis Crandall, Wrightson Associates (October 21, 1996); L. Napoleon Cooper (October 23 and November 12, 1996); Robert L. Elgin (October 25, 1996); Robert D. Sbarra, Chief Operating Officer-Fixed Income, HSBC Securities, Inc. (October 25, 1996); Edwin F. Payne, Chairman, PSA Government and Federal Agency Division, PSA The Bond Market Trade Association (November 6, 1996).

securities as designed would not provide for a very liquid market because of the lack of fungibility of the inflation-indexed stripped components. The commenter proposed and described an inflation-indexed "strip that would be entirely fungible with other inflation-protection strips." Under the commenter's proposal, the inflation-indexed securities would be stripped into pieces of equal "real" value. The commenter indicated that its approach to creating fungible STRIPS would require that Treasury relax its requirement that STRIPS be sold in \$1,000 increments.

Two of the remaining commenters confined their comments to taxation issues. One of these commenters expressed its belief that inflation-indexed securities would be a great success, but that the inflation adjustment to the principal should be treated as a capital gain or as taxable income at either redemption or sale by the investor. The other commenter recommended that, before inflation-indexed securities are offered to the public, Treasury should ask Congress to provide statutory authority to exclude the inflation adjustment from taxation. The commenter said that, without such an exclusion, taxable investors would receive less than full inflation protection.

One commenter specifically addressed the subject of reopenings of the security as stated in the proposed rule. In its letter, the commenter stated its belief that it is extremely important to reopen inflation-indexed securities

to consolidate issues, especially since stripped coupons from different inflation-indexed securities will not be interchangeable. The commenter indicated that rules in the tax code restrict reopenings of conventional bonds that might otherwise be desirable, and stated that this may also be true for inflation-indexed securities. The commenter offered two alternatives to resolve this "original-issue-discount" or "OID" problem. One alternative would be to relax the OID restrictions for inflation-indexed securities. A second alternative would be to make an adjustment to the current single-price auction procedures so that the coupon rate would be rounded up instead of down. As a result, the initial price would always be at or above par, causing the new security to be issued further above the OID limit and thus making it easier to reopen.

Another letter, submitted by an industry trade association, had the following comments. While expressing support for particular design details of the security (e.g., modelling the securities on Canada's Real Return Bonds, selecting the CPI-U as the inflation index, adopting a current auction technique and making the securities eligible for stripping), the commenter stressed its concern and belief "that there are a number of market practice, regulatory, operational and technical issues which must be resolved in order to foster a smooth and orderly auction and efficient secondary market for the new securities in

January." To this end, "firms will have to make significant changes to their internal trading, trade processing, settlement, risk management, accounting, regulatory and tax reporting systems, among others, leaving market participants little time to build, test, and implement such internal systems changes before trading in the new securities commences in January." The commenter indicated that it previously advised Treasury that its members would need approximately six months from publication of the final rules to prepare for trading, clearance and settlement of the new securities.

The letter highlighted the commenter's specific concerns, which included: (1) the timing of the planned first issue; (2) a preference to have more time to program systems based on the final rules and more time to study the Boskin Commission's Report (methodology for calculating the CPI which was released on December 4); (3) the lack of fungibility of stripped interest components and its potential affect on liquidity, and the need to devise a viable method to create fungible strips; and (4) the need for a market convention for the appropriate factor or formula, preferably to be provided by Treasury, for valuing stripped interest components.

The letter recommended that Treasury should:

(1) provide a monthly publication of reference CPI numbers for at least the preceding three months as well as a monthly



publication of daily index ratios; (2) maintain a permanent and public record of all reference CPI numbers ever used to provide for a single reference source; (3) clarify in the final rules that, in the event of any discrepancies between CPI numbers published by the Bureau of Labor Statistics of the U.S. Department of Labor and the Treasury, those published by Treasury will take precedence; (4) clarify in the final rules the payment of the minimum guarantee; (5) add to the final rules hypothetical examples and sample calculations; and (6) with other regulators, provide formal guidance as to how the securities are required to be valued, recorded and reported under different regulatory regimes.

### III. Changes from the Proposed Rule

#### A. General

After taking into consideration the comments received, the Department is adopting as a final rule this amendment to the uniform offering circular setting out the terms, conditions and features of Treasury inflation-indexed securities. The final rule adopts the proposed rule without significant changes. A summary of the main features of the final rule that remain unchanged from the proposed rule are: (1) the inflation-indexed securities will be structured similarly to the Real Return Bonds issued by the Government of Canada; (2) the interest rate, which is set at auction, will remain fixed throughout the life of the security while

the principal amount of the security will be adjusted for inflation, and interest payments will be based on the inflation-adjusted principal at the time the interest is paid; (3) the non-seasonally adjusted CPI-U will be the inflation index; (4) the auction process will use a single-price auction method that is the same as that currently used for two-year and five-year Treasury notes; and (5) inflation-indexed securities will be eligible immediately for stripping into their principal and interest components.

The proposed changes in §§ 356.2; 356.3; 356.5; 356.10; 356.12; 356.13; 356.20; 356.32; Appendix B, Section I, Paragraphs A and C; Appendix B, Section II; Appendices C and D; and Exhibit A, Section IV are being adopted as originally proposed. Readers should refer to the preamble of the proposed rule<sup>8</sup> for a description of the above provisions being adopted in this final rule.

B. Section 356.17 Responsibility for payment

The proposed rule, in paragraphs 356.17(a) and (b), contained minor conforming clarifications to reflect that bidders submitting payment with their tender may have to include, in addition to announced accrued interest, an inflation-adjustment amount with their payment. The wording in paragraphs (a) and (b) has been modified from the proposed rule to reflect a recent amendment to the offering circular, which added payment by authorized electronic means

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<sup>8</sup> See supra note 3.

as a payment option.<sup>9</sup>

C. Section 356.25 Payment for awarded securities

In the proposed rule, a conforming change was made to paragraph 356.25(a)(2) to state that additional amounts due at settlement may include inflation adjustments. The proposed rule also added a new paragraph (c) to provide that the payment amount for awarded securities will be the settlement amount, as that term is defined in § 356.2. The substance of these two provisions remains unchanged in the final rule. However, in the final rule, new paragraph (c) has been redesignated as paragraph (d) to reflect a recent amendment to the uniform offering circular authorizing payment by electronic means,<sup>10</sup> which was effective after publication of the proposed rule.

D. Section 356.30 Payment of principal and interest on notes and bonds

Proposed paragraph 356.30(b) has been modified in accordance with one commenter's suggestion that the Department make clear in this section its obligation to pay at maturity the greater of the inflation-adjusted principal amount or par amount.

E. Section 356.31 STRIPS

No substantive changes have been made in this section from the proposed rule, which permits inflation-indexed

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<sup>9</sup> 61 FR 54908 (October 22, 1996).

<sup>10</sup> Id.

securities to be stripped into separate principal and interest components. Unlike the conventional STRIPS program in which interest components having the same payment/maturity date are fungible (i.e., have the same CUSIP number), interest components stripped from different inflation-indexed securities will not be fungible even if they have the same payment/maturity date.

Some commenters have maintained that the creation of fungible stripped interest components is essential to provide sufficient liquidity in the market for these components. One commenter provided an alternative method that would achieve fungibility for inflation-indexed interest components. This method was supported by a second commenter. The Department understands these concerns and strongly supports the development of an active, liquid market for inflation-indexed securities, including their stripped components. Making the securities attractive to a broad investor base and ensuring the development of a liquid market have been two of Treasury's primary objectives throughout the securities' design and development. The Department is evaluating alternative methodologies, including the recommendation mentioned above, for creating fungible stripped interest components from inflation-indexed securities. However, we are not yet in a position to adopt a methodology that would permit fungibility. We have decided to proceed with the STRIPS program as described in

the proposed rule and will continue to work on making interest components fungible in a manner that is operationally feasible. We believe that this approach is preferable to not having the securities strippable at the time they are first offered.

F. Section 356.32 Taxation

No change has been made to this section from the proposed rule. However, readers should note that they are directed in paragraph (b) to the relevant Internal Revenue Service (IRS) regulations for further information about the tax treatment, and reporting, of inflation-indexed securities. The IRS rules are expected to be publicly available and published in the Federal Register at the same time as this final rule is published, or shortly thereafter. The IRS regulations will be issued under §§ 1275(d) and 1286 of the Internal Revenue Code.

In the meantime, prospective investors are advised to refer to IRS Notice 96-51 published in the Internal Revenue Bulletin 1996-42 (October 15, 1996) for information regarding taxation of inflation-indexed securities and the stripped components of such securities. Additionally, in September, Treasury issued a statement providing an explanation of the federal income tax treatment for these securities and their stripped components. Readers interested in receiving a copy of this statement should call the Department's Office of Public Affairs automated

facsimile system at 202-622-2040 and request Document No. 1290.

The Department also wishes to respond to the concern expressed by one of the commenters regarding rules in the tax code that could limit Treasury's ability to reopen issues of inflation-indexed securities. We note that the IRS regulations will permit reopenings of inflation-indexed securities without regard to the OID rules, provided that the reopenings occur not more than one year after the original securities were first issued to the public.

G. Appendix B, Section I, Paragraph B

In the proposed rule, Treasury stated that it did not intend to publish the index ratio for use by market participants. However, in the preamble, the Department specifically asked for comments on whether a monthly publication of the daily index ratios or reference CPIs would be useful to market participants. One of the commenters strongly urged that Treasury publish both the reference CPI numbers for at least the three preceding months and the daily index ratios on a month-to-month basis. Treasury will support this request. Although Appendix B has been revised by deleting the language from the proposed rule and is now silent with respect to publication of the daily index ratios, Treasury intends to provide monthly the daily reference CPI numbers and the daily index ratios on a pilot basis for one year. This information will be available

through such means as a monthly press release, the Internet, and automated facsimile systems.

After a year, the Department will determine whether there is still a need for this information to be provided by Treasury. It is our understanding that most market participants will incorporate the formulas for calculating the reference CPIs and index ratios into their trading or other automated systems. Additionally, it is reasonable to expect that the major electronic financial service providers (e.g., Bloomberg, Telerate, Reuters) will provide this information, or substantially similar information, to their subscribers. Further, Treasury will maintain an archival record of the reference CPIs and the daily index ratios throughout the life of each inflation-indexed security. This information will be readily available to market participants.

In addition to the publication of reference CPIs and index ratios, the Treasury will provide monthly the non-seasonally adjusted CPI for each of the prior three months.

Changes have been made to the paragraph that addresses index contingencies. Language has been revised to clarify Treasury's course of action if the CPI is: discontinued, or in the judgment of the Secretary, either fundamentally altered in a manner materially adverse to the interests of an investor in the security or altered by legislation or Executive Order in a manner materially adverse to the

interests of an investor in the security.

A change to the CPI would be considered fundamental if it affected the character of the CPI. Technical changes made by the Bureau of Labor Statistics (BLS) to the CPI to improve its accuracy as a measure of the cost of living would not be considered fundamental changes. Technical changes include, but are not limited to, changes in: (1) the specific items (e.g., apples or major appliances) to be priced for the index; (2) the way individual price quotations are aggregated to construct component price indices for these items (aggregation of item sub-strata); (3) the method for combining these component price indices to obtain the comprehensive, all-items CPI (aggregation of item strata); and (4) the procedures for incorporating new goods into the index and making adjustments for quality changes in existing goods.

Technical changes to the CPI previously made or announced by BLS include introducing probability sampling to select the precise items for which prices are collected and the stores in which collection takes place, and changing the way in which price movements of major components, such as shelter costs for homeowners in the early 1980s and medical care costs beginning in 1997, are measured.

The Advisory Commission to Study the Consumer Price Index (the Boskin Commission) made a number of recommendations to improve the calculation of changes in the



cost of living. Some of these recommendations were directed to BLS and were designed to improve the calculation of the monthly CPI. These recommendations, if and to the extent implemented by BLS, would constitute technical changes rather than fundamental changes.

The Boskin Commission also recommended construction of an annual measure of the cost of living as a supplement to the monthly CPI. Development and use of such a supplement, by itself, would not change the monthly CPI itself. While the Boskin Commission did not suggest that such a measure replace the CPI, a decision by BLS to replace, rather than supplement, the current monthly CPI with an annual measure of consumer prices, would constitute a fundamental change.

In addition, if the Secretary determines that the CPI is altered by legislation or Executive Order in a manner that is materially adverse to the interests of an investor in the security, the Secretary would propose an alternative index.

A minor, technical change has also been made to clarify Treasury's intention in the situation where the CPI for a particular month is not reported by the last day of the following month. In such a situation, the last CPI that has been reported (including any revision of a previously reported CPI number) will be used to calculate CPI numbers for months for which the CPI has not been reported by such day.

#### H. Appendix B, Section III

Minor, technical changes have been made to certain formulas and examples by adding a definition of one variable, and by elaborating on the definitions of two other variables.

#### I. Other Issues

One commenter raised a number of issues pertaining to the regulatory treatment of inflation-indexed securities, which are outside the scope of the uniform offering circular regulations. Specifically, the commenter questioned how these securities are to be valued, recorded and reported under various regulatory regimes for purposes such as large position reporting, determining regulatory capital and margin amounts, and broker-dealer reporting. The Treasury has given informal, general guidance on some of these issues as they pertain to the Government Securities Act (GSA) regulations, 17 CFR Chapter IV, (e.g., large position reporting, capital and haircut treatment, recordkeeping and financial reporting), and will respond to additional questions as they arise. The Treasury is also considering issuing an interpretation of the GSA regulations to provide formal clarification and guidance on regulatory issues within the scope of its authority. Additionally, Treasury has been coordinating and consulting with other regulators, such as staff of the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, and the

Federal Reserve Bank of New York, to address the various regulatory issues raised by the commenter and to foster consistent regulatory treatment where possible and appropriate.

The commenter also raised concerns that a number of questions remain unanswered regarding market practice, trading, accounting and operational issues related to the new securities. While these issues are also outside the scope of both the uniform offering circular rules and Treasury's authority under the GSA, Treasury appreciates the need for consistent and widely accepted trading practices and industry conventions for quoting, pricing, and valuing inflation-indexed securities. Treasury strongly supports and encourages industry efforts, including the formation of the PSA Inflation Bond Trading Practices Task Force, to develop trading and market practice conventions. We are confident the industry will be successful in this effort and we will continue to provide guidance as needed.

#### **IV. Procedural Requirements**

This final rule does not meet the criteria for a "significant regulatory action" pursuant to Executive Order 12866.

Although this rule was issued in proposed form to secure the benefit of public comment, the notice and public comment procedures requirements of the Administrative

Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2).

As no notice of proposed rulemaking was required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601, et seq.) do not apply.

There is no new collection of information contained in this rule, and, therefore, the Paperwork Reduction Act does not apply. The collections of information of 31 CFR Part 356 have been previously approved by the Office of Management and Budget under section 3507(d) of the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35) under control number 1535-0112. Under this Act, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number.

**List of Subjects in 31 CFR Part 356**

Bonds, Federal Reserve System, Government securities, Securities.

DATED: \_\_\_\_\_

Signed: Donald V. Hammond  
Deputy Fiscal Assistant Secretary

For the reasons set forth in the preamble, 31 CFR Chapter II, Subchapter B, Part 356, is amended as follows:

PART 356--SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY  
BILLS, NOTES, AND BONDS (DEPARTMENT OF THE TREASURY  
CIRCULAR, PUBLIC DEBT SERIES NO. 1-93)

1. The authority citation for part 356 continues to read as follows:

**Authority:** 5 U.S.C. 301; 31 U.S.C. 3102, et seq.; 12 U.S.C. 391.

2. Section 356.2 is amended by revising the definitions of "Accrued interest," "Book-entry security," "Customer," "Interest rate," "Multiple-price auction," "Par amount," "Settlement amount," "STRIPS," and "Yield;" and adding in alphabetical order the definitions of "Business day," "Consumer Price Index," "Daily interest decimal," "Index," "Index ratio," "Inflation-adjusted principal," "Real yield," and "Reference CPI" to read as follows:

§ 356.2 Definitions.

\*\*\*

Accrued interest means an amount payable to the Department for such part of the next semiannual interest payment that represents interest income attributed to the

period prior to the date of issue. (See Appendix B, Section I, Paragraph C.)

\*\*\*\*\*

Book-entry security means a security the issuance and maintenance of which are represented by an accounting entry or electronic record and not by a certificate. Treasury book-entry securities may generally be held in either TRADES or in TREASURY DIRECT. (See § 356.3.)

Business day means any day other than a Saturday, Sunday, or other day on which the Federal Reserve Banks are not open for business.

\*\*\*\*\*

Consumer Price Index (CPI) means the monthly non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the Department of Labor. (See Appendix D.)

\*\*\*\*\*

Customer means a bidder on whose behalf a depository institution or dealer has been directed to submit or forward a competitive or noncompetitive bid for a specified amount of securities in a specific auction. Only depository institutions and dealers may submit or forward bids for customers, whether directly to a Federal Reserve Bank or the Bureau of the Public Debt, or through an intermediary depository institution or dealer.

Daily interest decimal means, for a fixed-principal security, the interest factor attributable to one day of an interest payment period per \$1,000 par amount.

\*\*\*\*\*

Index means the Consumer Price Index, which is used as the basis for making adjustments to principal amounts of inflation-indexed securities. (See Appendix D.)

Index ratio means, for any particular date and any particular inflation-indexed security, the Reference CPI applicable to such date divided by the Reference CPI applicable to the original issue date (or dated date, when the dated date is different from the original issue date). (See Appendix B, Section I, Paragraph B.)

Inflation-adjusted principal means, for an inflation-indexed security, the value of the security derived by multiplying the par amount by the applicable index ratio as described in Appendix B, Section I, Paragraph B.

Interest rate means the annual percentage rate of interest paid on the par amount or the inflation-adjusted principal of a specific issue of notes or bonds. (See Appendix B for methods and examples of interest calculations on notes and bonds.)

\*\*\*\*\*

Multiple-price auction means an auction in which each successful competitive bidder pays the price equivalent to the yield or rate that it bid.

\*\*\*\*\*

Par amount means the stated value of a security at original issuance.

\*\*\*\*\*

Real yield means, for an inflation-indexed security, the yield based on the payment stream in constant dollars, i.e., before adjustment by the index ratio.

Reference CPI (Ref CPI) means, for an inflation-indexed security, the index number applicable to a given date. (See Appendix B, Section I, Paragraph B.)

\*\*\*\*\*

Settlement amount means the par amount of securities awarded less any discount amount and plus any premium amount and/or any accrued interest. For inflation-indexed securities, the settlement amount also includes any inflation adjustment when such securities are reopened or when the dated date is different from the issue date.

\*\*\*\*\*

STRIPS (Separate Trading of Registered Interest and Principal of Securities) means the Department's program under which eligible securities are authorized to be separated into principal and interest components, and transferred separately. These components are maintained in book-entry accounts, and transferred, in TRADES.

\*\*\*\*\*

Yield, also referred to as "yield to maturity," means



the annualized rate of return to maturity on a fixed-principal security expressed as a percentage. For an inflation-indexed security, yield means the real yield. (See Appendix B.)

3. Section 356.3 is amended by revising the introductory paragraph and the heading of paragraph (a) and removing footnote 1; adding three sentences at the end of paragraph (a); and adding a second sentence at the end of paragraph (b), to read as follows:

§ 356.3 Book-entry securities and systems.

Securities issued subject to this Part shall be held and transferred in either of the two book-entry securities systems -- TRADES or TREASURY DIRECT -- described in this section. Securities are maintained and transferred, to the extent authorized in 31 CFR 357, in these two book-entry systems at their par amount, e.g., for inflation-indexed securities, adjustments for inflation will not be included in this amount. Securities may be transferred from one system to the other in accordance with Treasury regulations governing book-entry Treasury bills, notes, and bonds. See Department of the Treasury Circular, Public Debt Series No. 2-86, as amended (31 CFR Part 357).

(a) Treasury/Reserve Automated Debt Entry System (TRADES). \*\*\* For accounts maintained in TRADES, Treasury

discharges its payment obligations when payment is credited to the applicable account maintained at a Federal Reserve Bank or payment is made in accordance with the instructions of the person or entity maintaining such account. Further, neither Treasury nor the Federal Reserve Banks have any obligations to, nor will they recognize any claims of, any person or entity that does not have an account at a Federal Reserve Bank. In addition, neither Treasury nor the Federal Reserve Banks will recognize the claims of any person or entity with respect to any accounts not maintained at a Federal Reserve Bank.

(b) \*\*\* In TREASURY DIRECT, Treasury discharges its payment obligations when payment is made to a depository institution for credit to the account specified by the owner of the security, or when payment is made in accordance with the instructions of the owner of the security.

\*\*\*\*\*

4. Section 356.5 is amended by revising the introductory text and paragraphs (b) and (c) to read as follows:

§ 356.5 Description of securities.

Securities offered pursuant to this Part are offered exclusively in book-entry form and are direct obligations of the United States, issued under Chapter 31 of Title 31 of the United States Code. The securities are subject to the

terms and conditions set forth in this Part, including the appendices, as well as the regulations governing book-entry Treasury bills, notes, and bonds (31 CFR Part 357), and the offering announcements, all to the extent applicable. When the Department issues additional securities with the same CUSIP number as outstanding securities, all securities with the same CUSIP number are considered the same security.

\*\*\*\*\*

(b) Treasury notes.

(1) Treasury fixed-principal<sup>1</sup> notes. Treasury fixed-principal notes are issued with a stated rate of interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten years.

(2) Treasury inflation-indexed notes. Treasury inflation-indexed notes are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount,

---

<sup>1</sup> The term "fixed-principal" is used in this Part to distinguish such securities from "inflation-indexed" securities. Fixed-principal notes and fixed-principal bonds are referred to as "notes" and "bonds" in official Treasury publications, such as offering announcements and auction results press releases, as well as in auction systems.

whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten years. (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.)

(c) Treasury bonds.

(1) Treasury fixed-principal bonds. Treasury fixed-principal bonds are issued with a stated rate of interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten years.

(2) Treasury inflation-indexed bonds. Treasury inflation-indexed bonds are issued with a stated rate or interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten years. (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.)

5. Section 356.10 is amended by adding a sentence at the

end of the paragraph, before the parenthetical last sentence, to read as follows:

§ 356.10 Offering announcement.

\*\*\* Accordingly, bidders should read the applicable offering announcement in conjunction with this Part. \*\*\*

6. Section 356.12 is amended by revising the first sentence of paragraph (a); revising paragraphs (b) (2), (c) (1) (i) and (ii); and adding new paragraph (c) (1) (iii) to read as follows:

§ 356.12 Noncompetitive and competitive bidding.

(a) General. All bids, including bids for reopenings, must state the par amount of securities bid for and must equal or exceed the minimum bid amount stated in the offering announcement. \*\*\*

(b) \*\*\*

(2) Additional restrictions. A bidder may not bid noncompetitively for its own account if, in the security being auctioned, it holds or has held a position in when-issued trading or in futures or forward contracts at any time between the date of the offering announcement and the designated closing time for the receipt of competitive tenders. \*\*\*

(c) \*\*\*

(1) \*\*\*

(i) Treasury bills. A competitive bid must show the discount rate bid, expressed with two decimals, e.g., 3.10. Fractions may not be used.

(ii) Treasury fixed-principal securities. A competitive bid must show the yield bid, expressed with three decimals, e.g., 4.170. Fractions may not be used.

(iii) Treasury inflation-indexed securities. A competitive bid must show the real yield bid, expressed with three decimals, e.g., 3.070. Fractions may not be used.

\*\*\*\*\*

7. Section 356.13 is amended by revising paragraph (a) to read as follows:

§ 356.13 Net long position.

(a) Reporting net long positions. When bidding competitively, a bidder must report the amount of its net long position when the total of all of its bids in an auction plus the bidder's net long position in the security being auctioned equals or exceeds the net long position reporting threshold amount. The threshold amount for any particular security will be as stated in the offering announcement for that security. (See § 356.10.) That amount will be \$2 billion for bills, notes, and bonds unless otherwise stated in the offering announcement. For example,

the net long position reporting threshold amount may be less than \$2 billion for smaller security offerings, e.g., certain inflation-indexed securities or cash management bills. If the bidder either has no position or has a net short position and the total of all of its bids equals or exceeds the threshold amount, e.g., \$2 billion, a net long position of zero must be reported. \*\*\*

\*\*\*\*\*

8. Section 356.17 is amended by revising the last sentence in the introductory paragraph and the introductory text of paragraphs (a) and (b) to read as follows:

§ 356.17 Responsibility for payment.

\*\*\* The specific requirements, outlined in this section, depend on whether awarded securities will be delivered in TREASURY DIRECT or TRADES.

(a) TREASURY DIRECT. For securities to be held in TREASURY DIRECT, payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless other provisions have been made, such as payment by an authorized electronic means providing for immediately available funds or by charge to the funds account of a depository institution.

\*\*\*\*\*

(b) TRADES. For securities to be held in TRADES,

payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless other provisions have been made, such as payment by an authorized electronic means providing for immediately available funds or by charge to the funds account of a depository institution.

\*\*\*\*\*

9. Section 356.20 is amended by revising the introductory text of paragraph (c) and adding a sentence to the end of paragraph (c)(2) to read as follows:

§ 356.20 Determination of auction awards.

\*\*\*\*\*

(c) Determining purchase prices for awarded securities.

Price calculations will be rounded to three decimal places on the basis of price per hundred, e.g., 99.954. (See Appendix B.)

\*\*\*\*\*

(2) \*\*\* For inflation-indexed securities, the price of such securities will be the price equivalent to the highest real yield at which bids were accepted.

10. Section 356.25 is amended by revising the last sentence in paragraph (a)(2), and adding paragraph (d) to read as follows:



§ 356.25 Payment for awarded securities.

\*\*\*\*\*

(a) \*\*\*

(2) \*\*\* Such additional amount may be due if the auction calculations result in a premium or if accrued interest and/or inflation adjustment is due.

\*\*\*\*\*

(d) Amount of payment for awarded securities. The payment amount for awarded securities will be the settlement amount as defined in § 356.2. (See formulas in Appendix B.)

11. Section 356.30 is amended by redesignating the text of the current section as (a), adding a heading of "General" and revising the last sentence in newly redesignated paragraph (a), and adding paragraph (b) to read as follows:

§ 356.30 Payment of principal and interest on notes and bonds.

(a) General. \*\*\* In the event any principal or interest payment date is not a business day, the amount is payable (without additional interest) on the next business day.

(b) Treasury inflation-indexed securities. At maturity, the inflation-adjusted principal will be paid, unless the inflation-adjusted principal is less than the par amount of the security, in which case an additional amount will be paid at maturity so that the additional amount plus

the inflation-adjusted principal equals the par amount. If a security has been stripped, any such additional amount will be paid at maturity to holders of principal components only. Regardless of whether or not an additional amount is paid, the final interest payment will be based on the inflation-adjusted principal at maturity.

12. Section 356.31 is amended by revising paragraph (a) and the first sentence of paragraph (b), redesignating paragraphs (c) and (d) as paragraphs (g) and (h) respectively, adding new paragraphs (c) through (f), adding a third and fourth sentence to newly redesignated paragraph (g) and revising newly redesignated paragraph (h) to read as follows:

§ 356.31 STRIPS.

(a) General. A note or bond may be designated in the offering announcement as eligible for the STRIPS program. At the option of the holder, and generally at any time from its issue date until its call or maturity, any such security may be "stripped," i.e., divided into separate principal and interest components. A short or long first interest payment and all interest payments within a callable period are not eligible to be stripped from the principal component. The CUSIP numbers and payment dates for the principal and interest components are provided in the offering

announcement if not previously announced.

(b) Minimum par amounts required for STRIPS. For a note or bond to be stripped into the components described above, the par amount of the note or bond must be in an amount that, based on its interest rate, would produce a semiannual interest payment, before adjustment for inflation, in a multiple of \$1,000. \*\*\*

(c) Principal components stripped from fixed-principal securities. Principal components stripped from fixed-principal securities are maintained in accounts, and transferred, in TRADES at their par amount. The principal components have a CUSIP number that is different from the CUSIP number of the fully-constituted (unstripped) security.

(d) Interest components stripped from fixed-principal securities. Interest components stripped from fixed-principal securities are maintained in accounts, and transferred, in TRADES at their original payment value, which is derived by applying the semiannual interest rate to the par amount. When an interest component is created, the interest payment date becomes the maturity date for the component. All such components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped. All interest components have CUSIP numbers that are different from the CUSIP number of any fully-constituted security and any principal component.

(e) Principal components stripped from inflation-indexed securities. Principal components stripped from inflation-indexed securities are maintained in accounts, and transferred, in TRADES at their par amount. At maturity, the holder will receive the inflation-adjusted principal value or the par amount, whichever is greater. (See § 356.30.) Principal components have a CUSIP number that is different from the CUSIP number of the fully-constituted security.

(f) Interest components stripped from inflation-indexed securities. Interest components stripped from inflation-indexed securities are maintained in accounts, and transferred, in TRADES at their original payment value, which is derived by applying the semiannual interest rate to the par amount. When an interest component is created, the interest payment date becomes the maturity date for the component. Each such component has a unique CUSIP number that is different from the CUSIP number of any interest components stripped from different securities, even if the components have the same maturity date. All interest components have CUSIP numbers that are different from the CUSIP number of any fully-constituted security and any principal component. At maturity, the payment to the holder will be derived by applying the semiannual interest rate to the inflation-adjusted principal of the underlying security.

(g) Reconstituting a security. \*\*\* Interest components

stripped from inflation-indexed securities are different from interest components stripped from fixed-principal securities and, accordingly, are not interchangeable for reconstitution purposes. Interest components stripped from one inflation-indexed security are not interchangeable for reconstitution purposes with interest components stripped from another inflation-indexed security.

(h) Applicable regulations. Unless otherwise provided in this Part, notes and bonds stripped into their STRIPS components are governed by Subparts A, B and D of Part 357 of this title.

13. Section 356.32 is revised to read as follows:

§ 356.32 Taxation.

(a) General. Securities issued under this Part are subject to all applicable taxes imposed under the Internal Revenue Code of 1986, or successor. Under section 3124 of Title 31, United States Code, the securities are exempt from taxation by a State or political subdivision of a State, except for State estate or inheritance taxes and other exceptions as provided in that section.

(b) Treasury inflation-indexed securities. Special federal income tax rules for inflation-indexed securities, and principal and interest components stripped from such securities, are set forth in Internal Revenue Service

regulations.

14. Appendix B to Part 356 is amended by revising the list of section titles, and adding two new paragraphs following the list to read as follows:

**APPENDIX B TO PART 356--FORMULAS AND TABLES**

I. Computation of Interest on Treasury Bonds and Notes.

II. Formulas for Conversion of Fixed-Principal Security Yields to Equivalent Prices.

III. Formulas for Conversion of Inflation-Indexed Security Yields to Equivalent Prices.

IV. Computation of Purchase Price, Discount Rate, and Investment Rate (Coupon-Equivalent Yield) for Treasury Bills.

The numbers in this appendix are examples given for illustrative purposes only and are in no way a prediction of interest rates on any bills, notes, or bonds issued under this Part.

In some of the following examples, intermediate rounding is used to allow the reader to follow the calculations. In actual practice, the Department generally does not round prior to determining the final result.

15. Appendix B, Section I is amended as follows: by redesignating paragraphs A through D and their corresponding Examples as paragraphs A.1. through A.4. respectively, and adding a new title for paragraph A, revising newly redesignated paragraph A.1., revising the first sentence in newly redesignated paragraphs A.2., A.3. and its Example, and A.4. and its Example; by adding a new paragraph B; and by redesignating paragraph E as paragraph C, revising the second paragraph, adding a third paragraph prior to the Examples in newly redesignated paragraph C., redesignating the headings for Examples C.(1) and (2) as C.(1)(i) and C.(1)(ii) respectively, and adding a new heading for Example C.(1).

## I. COMPUTATION OF INTEREST ON TREASURY BONDS AND NOTES

### A. Treasury Fixed-Principal Securities

#### 1. Regular Half-Year Payment Period

Interest on marketable fixed-principal securities is payable on a semiannual basis. The regular interest payment period is a full half-year of six calendar months. Examples of half-year periods are: (1) February 15 to August 15, (2) May 31 to November 30, and (3) February 29 to August 31 (in a leap year). Calculation of an interest payment for a fixed-principal security with a par amount of \$1,000 and an interest rate of 8% is made in this manner:

$(\$1,000 \times .08) / 2 = \$40$ . Specifically, a semiannual interest

payment represents one-half of one year's interest, and is computed on this basis regardless of the actual number of days in the half-year.

## 2. Daily Interest Decimal

In cases where an interest payment period for a fixed-principal security is shorter or longer than six months or where accrued interest is payable by an investor, a daily interest decimal, based on the actual number of days in the half-year or half-years involved, must be computed. \*\*\*

\*\*\*\*\*

## 3. Short First Payment Period

In cases where the first interest payment period for a fixed-principal security covers less than a full half-year period (a "short coupon"), the daily interest decimal is multiplied by the number of days from, but not including, the issue date to, and including, the first interest payment date, resulting in the amount of the interest payable per \$1,000 par amount. \*\*\*

EXAMPLE. A 2-year fixed-principal note paying 8-3/8% interest was issued on July 2, 1990, with the first interest payment on December 31, 1990. \*\*\*

## 4. Long First Payment Period

In cases where the first interest payment period for a



fixed-principal security covers more than a full half-year period (a "long coupon"), the daily interest decimal is multiplied by the number of days from, but not including, the issue date to, and including, the last day of the fractional period that ends one full half-year before the interest payment date. \*\*\*

EXAMPLE. A 5-year 2-month fixed-principal note paying 7-7/8% interest was issued on December 3, 1990, with the first interest payment due on August 15, 1991. \*\*\*

## B. Treasury Inflation-Indexed Securities

### 1. Indexing Process

Interest on marketable Treasury inflation-indexed securities is payable on a semiannual basis. The inflation-indexed securities are issued with a stated rate of interest which remains constant for the term of the particular security. Interest payments are based on the security's inflation-adjusted principal at the time interest is paid. This adjustment is made by multiplying the par amount of the security by the applicable Index Ratio.

### 2. Index Ratio

The numerator of the Index Ratio, the Ref CPI<sub>Date</sub>, is the index number applicable for a specific day, and the denominator of the Index Ratio is the Ref CPI applicable for the original issue date. However, when the dated date is

different from the original issue date, the denominator is the Ref CPI applicable for the dated date. The formula for calculating the Index Ratio is:

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Issue Date}}}$$

Where Date = valuation date

### 3. Reference CPI

The Ref CPI for the first day of any calendar month is the CPI for the third preceding calendar month. For example, the Ref CPI applicable to April 1 in any year is the CPI for January, which is reported in February. The Ref CPI for any other day of a month is determined by a linear interpolation between the Ref CPI applicable to the first day of the month in which such day falls (in the example, January) and the Ref CPI applicable to the first day of the next month (in the example, February). For purposes of interpolation, calculations with regard to the Ref CPI and the Index Ratio for a specific date will be truncated to six decimal places and rounded to five decimal places such that the Ref CPI and the Index Ratio for that date will be expressed to five decimal places. The formula for the Ref. CPI for a specific date is:

$$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_M + \frac{D-1}{D} [\text{Ref CPI}_{M+1} - \text{Ref CPI}_M]$$

Where Date = valuation date

D = the number of days in the month in which Date falls

t = the calendar day corresponding to Date

$CPI_M$  = CPI reported for the calendar month M by the Bureau  
of Labor Statistics

Ref  $CPI_M$  = Ref CPI for the first day of the calendar month  
in which Date falls, e.g., Ref  $CPI_{April 1}$  is the  
 $CPI_{January}$

Ref  $CPI_{M+1}$  = Ref CPI for the first day of the calendar month  
immediately following Date

For example, the Ref CPI for April 15, 1996 is  
calculated as follows:

$$\text{Ref } CPI_{\text{April 15, 1996}} = \text{Ref } CPI_{\text{April 1, 1996}} + \frac{14}{30} [\text{Ref } CPI_{\text{May 1, 1996}} - \text{Ref } CPI_{\text{April 1, 1996}}]$$

where D = 30, t = 15

Ref  $CPI_{\text{April 1, 1996}} = 154.40$ , the non-seasonally adjusted  
CPI-U for January 1996.

Ref  $CPI_{\text{May 1, 1996}} = 154.90$ , the non-seasonally adjusted  
CPI-U for February 1996.

Putting these values in the equation above:

$$\text{Ref CPI}_{\text{April 15, 1996}} = 154.40 + \frac{14}{30} [154.90 - 154.40]$$

$$\text{Ref CPI}_{\text{April 15, 1996}} = 154.633333333$$

This value truncated to six decimals is 154.633333;  
rounded to five decimals it is 154.63333.

To calculate the Index Ratio for April 16, 1996, for an inflation-indexed security issued on April 15, 1996, the Ref CPI<sub>April 16, 1996</sub> must first be calculated. Using the same values in the equation above except that t=16, the Ref CPI<sub>April 16, 1996</sub> is 154.65000.

The Index Ratio for April 16, 1996 is:

$$\text{Index Ratio}_{\text{April 16, 1996}} = 154.65000/154.63333 = 1.000107803.$$

This value truncated to six decimals is 1.000107;  
rounded to five decimals it is 1.00011.

#### 4. Index Contingencies

If a previously reported CPI is revised, Treasury will continue to use the previously reported CPI in calculating the principal value and interest payments.

If the CPI is rebased to a different year, Treasury will continue to use the CPI based on the base reference period in effect when the security was first issued, as long as that CPI continues to be published.

If, while an inflation-indexed security is outstanding, the applicable CPI is: (1) discontinued, (2) in the

judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or (3) in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the Bureau of Labor Statistics, or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. Determinations of the Secretary in this regard will be final.

If the CPI for a particular month is not reported by the last day of the following month, the Treasury will announce an index number based on the last twelve-month change in the CPI available. Any calculations of the Treasury's payment obligations on the inflation-indexed security that rely on that month's CPI will be based on the index number that the Treasury has announced. For example, if the CPI for month M is not reported timely, the formula for calculating the index number to be used is:

$$CPI_M = CPI_{M-1} \times \frac{CPI_{M-1}}{CPI_{M-13}} \left[ \frac{1}{12} \right]$$

Generalizing for the last reported CPI issued N months prior to month M:

$$CPI_M = CPI_{M-N} \times \left[ \frac{CPI_{M-N}}{CPI_{M-N-12}} \right]^{\frac{N}{12}}$$

If it is necessary to use these formulas to calculate an index number, it will be used for all subsequent calculations that rely on that month's index number and will not be replaced by the actual CPI when it is reported, except for use in the above formulas. When it becomes necessary to use the above formulas to derive an index number, the last CPI that has been reported will be used to calculate CPI numbers for months for which the CPI has not been reported timely.

#### 5. Computation of Interest for a Regular Half-Year Payment Period

Interest on marketable Treasury inflation-indexed securities is payable on a semiannual basis. The regular interest payment period is a full half-year or six calendar months. Examples of half-year periods are January 15 to July 15, and April 15 to October 15. An interest payment will be a fixed percentage of the value of the inflation-adjusted principal, in current dollars, for the date on which it is paid. Interest payments will be calculated by multiplying one-half of the specified annual interest rate for the inflation-indexed securities by the inflation-adjusted principal for the interest payment date.

Specifically, a semiannual interest payment is computed on the basis of one-half of one year's interest regardless of the actual number of days in the half-year.

Example. A 10-year inflation-indexed note paying 3% interest was issued on July 15, 1996, with the first interest payment on January 15, 1997. The Ref CPI on July 15, 1996 (Ref CPI<sub>Issue Date</sub>) was 120, and the Ref CPI on January 15, 1997 (Ref CPI<sub>Date</sub>) was 132. For a par amount of \$100,000, the inflation-adjusted principal on January 15, 1997, was  $(132/120) \times \$100,000$ , or \$110,000. This amount was then multiplied by  $.03/2$ , or  $.015$ , resulting in a payment of \$1,650.00.

### C. Accrued Interest

\*\*\*\*\*

For a fixed-principal security, if accrued interest covers a fractional portion of a full half-year period, the number of days in the full half-year period and the stated interest rate will determine the daily interest decimal to be used in computing the accrued interest. The decimal is multiplied by the number of days for which interest has accrued. If a reopened fixed-principal security has a long first interest payment period (a "long coupon"), and the dated date for the reopened issue is less than six full months before the first interest payment, the accrued interest will fall into two separate half-year periods, and

a separate daily interest decimal must be multiplied by the respective number of days in each half-year period during which interest has accrued. All accrued interest computations are rounded to five decimal places for a \$1,000 inflation-adjusted principal, using normal rounding procedures. Accrued interest for a par amount of securities greater than \$1,000 is calculated by applying the appropriate multiple to accrued interest payable for \$1,000 par amount, rounded to five decimal places.

For an inflation-indexed security, accrued interest will be calculated as shown in Section III, Paragraphs A and B of this Appendix.

EXAMPLES. (1) Fixed-Principal Securities

(i) Involving One Half-Year: \*\*\*

(ii) Involving Two Half-Years: \*\*\*

16. Appendix B, Section II is amended by removing footnote 1, revising the Section heading, revising the definition of "C=", and revising the headings of paragraphs A through G to read as follows:

II. FORMULAS FOR CONVERSION OF  
FIXED-PRINCIPAL SECURITY YIELDS  
TO EQUIVALENT PRICES



Definitions

\*\*\*\*\*

C = the regular annual interest per \$100, payable semiannually, e.g., 10.125 (the dollar equivalent of a 10-1/8% interest rate)

\*\*\*\*\*

A. For fixed-principal securities with a regular first interest payment period:

\*\*\*\*\*

B. For fixed-principal securities with a short first interest payment period:

\*\*\*\*\*

C. For fixed-principal securities with a long first interest payment period:

\*\*\*\*\*

D. (1) For fixed-principal securities reopened during a regular interest period where the purchase price includes predetermined accrued interest.

(2) For new fixed-principal securities accruing interest from the coupon frequency date immediately preceding the issue date, with the interest rate established in the auction being used to determine the accrued interest payable on the issue date.

\*\*\*\*\*

E. For fixed-principal securities reopened during the regular portion of a long first payment period:

\*\*\*\*\*

F. For fixed-principal securities reopened during a short first payment period:

\*\*\*\*\*

G. For fixed-principal securities reopened during the fractional portion (initial short period) of a long first payment period:

\*\*\*\*\*

17. Appendix B is amended by redesignating Section III as Section IV and adding a new Section III to read as follows:

III. FORMULAS FOR CONVERSION OF  
INFLATION-INDEXED SECURITY YIELDS  
TO EQUIVALENT PRICES

Definitions

P = unadjusted or real price per 100 (dollars)

$P_{adj}$  = inflation adjusted price;  $P \times \text{Index Ratio}_{Date}$

A = unadjusted accrued interest per \$100 original principal

$A_{adj}$  = inflation adjusted accrued interest;  $A \times \text{Index Ratio}_{Date}$

SA = settlement amount including accrued interest in current dollars per \$100 original principal;  $P_{adj} + A_{adj}$

r = days from settlement date to next coupon date

s = days in current semiannual period

i = real yield, expressed in decimals (e.g., 0.0325)

$C$  = real annual coupon, payable semiannually, in terms of real dollars paid on \$100 initial, or real, principal of the security

$n$  = number of full semiannual periods from issue date to maturity date, except that, if the issue date is a coupon frequency date,  $n$  will be one less than the number of full semiannual periods remaining until maturity. Coupon frequency dates are the two semiannual dates based on the maturity date of each note or bond issue. For example, a security maturing on July 15, 2026 would have coupon frequency dates of January 15 and July 15.

$v^n = 1/(1 + i/2)^n$  = present value of 1 due at the end of  $n$  periods

$a_{n|} = (1 - v^n)/(i/2) = v + v^2 + v^3 + \dots + v^n$   
= present value of 1 per period for  $n$  periods

Date = valuation date

$D$  = the number of days in the month in which Date falls

$t$  = calendar day corresponding to Date

CPI = Consumer Price Index number

$CPI_M$  = CPI reported for the calendar month  $M$  by the Bureau of Labor Statistics

Ref  $CPI_M$  = reference CPI for the first day of the calendar month in which Date falls, e.g., Ref  $CPI_{April 1}$  is the  $CPI_{January}$ .

Ref  $CPI_{M+1}$  = reference CPI for the first day of the calendar

month immediately following Date

$$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_M + [(t - 1)/D] [\text{Ref CPI}_{M+1} - \text{Ref CPI}_M]$$

$$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{Issue Date}}$$

A. For inflation-indexed securities with a regular first interest payment period:

**Formulas:**

$$P = \frac{(C/2) - (C/2)a_{n|} - 100v^n}{1 - (r/s)(i/2)} - [(s - r)/s](C/2)$$

$$P_{\text{adj}} = P \times \text{Index Ratio}_{\text{Date}}$$

$$A = [(s - r)/s] \times (C/2)$$

$$A_{\text{adj}} = A \times \text{Index Ratio}_{\text{Date}}$$

$$SA = P_{\text{adj}} + A_{\text{adj}}$$

$$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{Issue Date}}$$

Example. The Treasury issues a 10-year inflation-indexed note on July 15, 1996. The note is issued at a discount to yield 3.1% (real). The note bears a 3% real coupon, payable on January 15 and July 15 of each year. The base CPI index applicable to this note is 120.<sup>1</sup> Calculate the settlement amount.

---

<sup>1</sup> This number is normally derived using the interpolative process described in Appendix B, Section I, Paragraph B.

**Definitions:**

$$C = 3.00$$

$$i = 0.0310$$

$n = 19$  (There are 20 full semiannual periods but  $n$  is reduced by 1 because the issue date is a coupon frequency date.)

$$r = 184 \text{ (July 15, 1996 to January 15, 1997)}$$

$$s = 184 \text{ (July 15, 1996 to January 15, 1997)}$$

$$\text{Ref CPI}_{\text{Date}} = 120$$

$$\text{Ref CPI}_{\text{Issue Date}} = 120$$

**Resolution:**

$$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{Issue Date}} = 120/120 = 1$$

$$A = [(184 - 184)/184] \times 3/2 = 0$$

$$A_{\text{adj}} = 0 \times 1 = 0$$

$$v^n = 1/(1 + i/2)^n = 1/(1 + .031/2)^{19} = 0.74658863$$

$$\begin{aligned} a_{n|} &= (1 - v^n)/(i/2) = (1 - 0.74658863)/(.031/2) \\ &= 16.34912065 \end{aligned}$$

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s](C/2)$$

$$P = \frac{(3/2) + (3/2)(16.34912065) + 100(0.74658863)}{1 + (184/184)(0.031/2)} - [(184 - 184)/184](3/2)$$

$$P = \frac{1.5 + 24.52368098 + 74.658863}{1.01550000} - 0$$

$$P = \frac{100.68254398}{1.01550000}$$

$$P = 99.145784$$

$$P = 99.146$$

$$P_{adj} = P \times \text{Index Ratio}_{Date}$$

$$P_{adj} = 99.146 \times 1 = 99.146$$

$$SA = P_{adj} + A_{adj}$$

$$SA = 99.146 + 0 = 99.146$$

B. For inflation-indexed securities reopened during a regular interest period where the purchase price includes predetermined accrued interest:

**Bidding:**

The dollar amount of each bid is in terms of the par amount. For example, if the Ref CPI applicable to the issue date of the note is 120, and the reference CPI applicable to the reopening issue date is 132, a bid of \$10,000 will in effect be a bid of \$10,000 x (132/120), or \$11,000.

**Formulas:**

$$P = \frac{(C/2) - (C/2)a_n + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s] (C/2)$$

$$P_{adj} = P \times \text{Index Ratio}_{Date}$$

$$A = [(s - r)/s] \times (C/2)$$

$$A_{adj} = A \times \text{Index Ratio}_{Date}$$

$$SA = P_{adj} + A_{adj}$$

$$\text{Index Ratio}_{Date} = \text{Ref CPI}_{Date} / \text{Ref CPI}_{Issue Date}$$

Example. A 3% 10-year inflation-indexed note was issued July 15, 1996, due July 15, 2006, with interest payments on January 15 and July 15. For a reopening on April 15, 1997, with inflation compensation accruing from July 15, 1996 to April 15, 1997, and accrued interest accruing from January 15, 1997 to April 15, 1997 (90 days), solve for the price per 100 (P) at a real yield, as determined in the reopening auction, of 3.40%. The base index applicable to the issue date of this note is 120 and the reference CPI applicable to April 15, 1997, is 132.

**Definitions:**

$$C = 3.00$$

$$i = 0.0340$$

$$n = 18$$

$$r = 91 \text{ (April 15, 1997 to July 15, 1997)}$$

$$s = 181 \text{ (January 15, 1997 to July 15, 1997)}$$

$$\text{Ref CPI}_{Date} = 132$$

$$\text{Ref CPI}_{Issue Date} = 120$$

**Resolution:**

$$\text{Index Ratio}_{Date} = \text{Ref CPI}_{Date} / \text{Ref CPI}_{Issue Date} = 132/120 = 1.100$$

$$v^n = 1/(1 + i/2)^n = 1/(1 + .0340/2)^{18} = 0.73828296$$

$$a_{n|} = (1 - v^n)/(i/2) = (1 - 0.73828296)/(.0340/2) \\ = 15.39512000$$

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s](C/2)$$

$$P = \frac{(3/2) + (3/2)(15.39512000) + 100(0.73828296)}{1 + (91/181)(0.0340/2)} - [(181 - 91)/181](3/2)$$

$$P = \frac{1.5 + 23.09268 + 73.828296}{1.00854696} - (90/181)(1.5)$$

$$P = \frac{98.420976}{1.00854696} - 0.745856$$

$$P = 97.586905 - 0.745856$$

$$P = 96.841049$$

$$P = 96.841$$

$$P_{adj} = P \times \text{Index Ratio}_{Date}$$

$$P_{adj} = 96.841 \times 1.100 = 106.5251$$

$$P_{adj} = 106.525$$

$$A = [(181 - 91)/181] \times 3/2 = 0.745856$$

$$A_{adj} = A \times \text{Index Ratio}_{Date}$$

$$A_{adj} = 0.745856 \times 1.100 = 0.820442$$

$$SA = P_{adj} + A_{adj} = 106.525 + 0.820442$$

$$SA = 107.345442$$

\*\*\*\*\*



18. Part 356 is amended by adding new Appendixes C and D to read as follows:

**APPENDIX C TO PART 356--INVESTMENT CONSIDERATIONS**

**I. INFLATION-INDEXED SECURITIES**

**A. Principal and Interest Variability**

An investment in securities with principal or interest determined by reference to an inflation index involves factors not associated with an investment in a fixed-principal security. Such factors may include, without limitation, the possibility that the inflation index may be subject to significant changes, that changes in the index may or may not correlate to changes in interest rates generally or with changes in other indices, that the resulting interest may be greater or less than that payable on other securities of similar maturities, and that, in the event of sustained deflation, the amount of the semiannual interest payments, the inflation-adjusted principal of the security, and the value of stripped components, will decrease. However, if at maturity the inflation-adjusted principal is less than a security's par amount, an additional amount will be paid at maturity so that the additional amount plus the inflation-adjusted principal equals the par amount. Regardless of whether or not such an additional amount is paid, interest payments will always be based on the inflation-adjusted principal as of the interest

payment date. If a security has been stripped, any such additional amount will be paid at maturity to holders of principal components only. (See § 356.30.)

#### B. Trading in the Secondary Market

The Treasury securities market is the largest and most liquid securities market in the world. While Treasury expects that there will be an active secondary market for inflation-indexed securities, that market initially may not be as active or liquid as the secondary market for Treasury fixed-principal securities. In addition, as a new product, inflation-indexed securities may not be as widely traded or as well understood as Treasury fixed-principal securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for inflation-indexed securities than the bid-asked spreads for fixed-principal securities with the same time to maturity. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The liquidity of an inflation-indexed security may be enhanced over time as Treasury issues additional amounts or more entities participate in the market.

#### C. Tax Considerations

Treasury inflation-indexed securities and the stripped interest and principal components of these securities are

subject to specific tax rules provided by Treasury regulations issued under sections 1275(d) and 1286 of the Internal Revenue Code of 1986, as amended.

#### D. Indexing Issues

While the CPI measures changes in prices for goods and services, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future.

The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the securities, particularly during periods of significant, rapid changes in the index.

The CPI is reported by the Bureau of Labor Statistics, a bureau within the Department of Labor. The Bureau of Labor Statistics operates independently of the Treasury and, therefore, Treasury has no control over the determination, calculation, or publication of the index. For a discussion of how the CPI will be applied in various situations, see Appendix B, Section I, Paragraph B. In addition, for a discussion of actions that Treasury would take in the event the CPI is: discontinued; in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security; or, in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the

interests of an investor in the security, see Appendix B, Section I, Paragraph B.4.

**APPENDIX D TO PART 356--DESCRIPTION OF THE  
CONSUMER PRICE INDEX**

The Consumer Price Index ("CPI") for purposes of inflation-indexed securities is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the Department of Labor. The CPI is a measure of the average change in consumer prices over time in a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors' and dentists' services, and drugs.

In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically to take into account changes in consumer expenditure patterns.

The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100. For example, if the CPI for the 1982-84 reference period is 100.0, an increase of 16.5 percent from that

period would be shown as 116.5. The CPI for a particular month is released and published during the following month. From time to time, the CPI is rebased to a more recent base reference period. The base reference period for a particular inflation-indexed security will be provided on the offering announcement for that security.

Further details about the CPI may be obtained by contacting the Bureau of Labor Statistics.

19. Exhibit A to Part 356 is amended by adding a new Section IV to the list of section titles and to the text of Exhibit A to read as follows:

**Exhibit A to Part 356--Sample  
Announcements of Treasury  
Offerings to the Public**

\*\*\*\*\*

IV. Treasury Inflation-Indexed Note Announcement

\*\*\*\*\*

**IV. TREASURY INFLATION-INDEXED NOTE ANNOUNCEMENT**

EMBARGOED UNTIL 2:30 P.M.  
October 2, 20XX

CONTACT: Office of Financing  
202/219-3350

**TREASURY TO AUCTION \$5,500 MILLION OF  
10-YEAR INFLATION-INDEXED NOTES**

The Treasury will auction \$5,500 million of 10-year inflation-indexed notes to raise cash. In addition, there

is \$7,906 million of publicly-held securities maturing October 15, 20XX.

In addition to the public holdings, Federal Reserve Banks hold \$327 million of the maturing securities for their own accounts, which may be exchanged for additional amounts of the new securities.

The maturing securities held by the public include \$584 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF  
10-YEAR INFLATION-INDEXED NOTES TO BE ISSUED OCTOBER 15, 20XX

October 2, 20XX

Offering Amount .....\$5,500 million

STRIPS Information:

Description of Offering:

Term and type of security: 10-year inflation-indexed notes

Series ..... D-20XX

CUSIP number ..... 912XXX XX X

Auction date ..... October 9, 20XX

Issue date ..... October 15, 20XX

Dated date ..... October 15, 20XX

Maturity date ..... October 15, 20XX

Interest Rate ..... Determined based on the highest accepted bid

Real yield ..... Determined at auction

Interest payment dates: April 15 and October 15

Minimum bid amount ..... \$1,000

Multiples ..... \$1,000

Accrued interest payable by investor: None

Due dates and CUSIP numbers for additional TINTs:

912XXX

April 15, 20XX XX X

October 15, 20XX XX X

April 15, 20XX XX X

October 15, 20XX XX X

April 15, 20XX XX X

October 15, 20XX XX X

April 15, 20XX XX X

October 15, 20XX XX X

April 15, 20XX XX X

October 15, 20XX XX X

April 15, 20XX XX X

Premium or discount:	Determined at auction	October 15, 20XX	XX X
		April 15, 20XX	XX X
<u>STRIPS Information:</u>			
Minimum amount required ..	Determined at auction	October 15, 20XX	XX X
Corpus CUSIP number .....	912XXX XX X	April 15, 20XX	XX X
		October 15, 20XX	XX X

Submission of Bids:

Noncompetitive bids: Will be accepted in full up to \$5,000,000 at the highest accepted yield.

Competitive bids:

- (1) Must be expressed as a real yield with three decimals, e.g., 3.120%.
- (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$\_\_\_ billion or greater.
- (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield .. 35% of public offering  
Maximum Award ..... 35% of public offering

Receipt of Tenders:

Noncompetitive tenders: Prior to 12:00 noon Eastern Daylight Saving time on auction day.

Competitive tenders: Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.

Payment Terms: Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date.

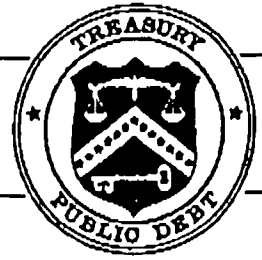
Indexing Information:

CPI Base Reference Period: 19XX-XX  
 Ref CPI 10/15/20XX: XXX.XXXXX

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# PUBLIC DEBT NEWS

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Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

For Immediate Release  
December 31, 1996

Contact: Office of Financing  
(202) 219-3350

## TREASURY'S INFLATION-INDEXED NOTES

### JANUARY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of January for the new 10-Year Treasury inflation-indexed notes. This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor. This announcement is made in anticipation of the auction of the inflation-indexed notes on January 29, 1997.

In addition to the publication of the reference CPIs (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

Treasury intends to announce the reference CPI numbers and the related index ratio monthly for at least one year.

This information is available through the Department's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1429. The information will be available monthly on the Internet at the Bureau of the Public Debt's home page at the following address:

<http://www.publicdebt.treas.gov>

The information for February is expected to be released on January 14, 1997.

o0o

PA-243



Contact: Office of Financing

202-219-3350

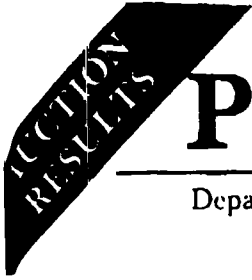
TREASURY 10-YEAR INFLATION-INDEXED NOTES

SERIES: A-2007  
CUSIP: 9128272M3  
AUCTION DATE: January 29, 1997  
ORIGINAL ISSUE DATED DATE: January 15, 1997  
ORIGINAL ISSUE DATE: February 6, 1997  
MATURITY DATE: January 15, 2007  
Ref CPI on DATED DATE: 158.43548  
TABLE FOR MONTH OF: January, 1997  
NUMBER OF DAYS IN MONTH: 31

CPI-U (NSA) Sep. '96 157.8  
CPI-U (NSA) Oct. '96 158.3  
CPI-U (NSA) Nov. '96 158.6

Ref CPI and Index Ratios for January 1997

Calendar day			Ref CPI	Index Ratio
January	1	1997	158.30000	
January	2	1997	158.30968	
January	3	1997	158.31935	
January	4	1997	158.32903	
January	5	1997	158.33871	
January	6	1997	158.34839	
January	7	1997	158.35806	
January	8	1997	158.36774	
January	9	1997	158.37742	
January	10	1997	158.38710	
January	11	1997	158.39677	
January	12	1997	158.40645	
January	13	1997	158.41613	
January	14	1997	158.42581	
January	15	1997	158.43548	1.00000
January	16	1997	158.44516	1.00006
January	17	1997	158.45484	1.00012
January	18	1997	158.46452	1.00018
January	19	1997	158.47419	1.00024
January	20	1997	158.48387	1.00031
January	21	1997	158.49355	1.00037
January	22	1997	158.50323	1.00043
January	23	1997	158.51290	1.00049
January	24	1997	158.52258	1.00055
January	25	1997	158.53226	1.00061
January	26	1997	158.54194	1.00067
January	27	1997	158.55161	1.00073
January	28	1997	158.56129	1.00079
January	29	1997	158.57097	1.00086
January	30	1997	158.58065	1.00092
January	31	1997	158.59032	1.00098



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 30, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for \$13,514 million of 13-week bills to be issued January 2, 1997 and to mature April 3, 1997 were accepted today (CUSIP: 9127942N3).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

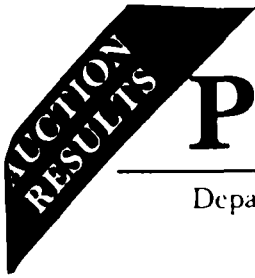
	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.04%	5.18%	98.726
High	5.08%	5.22%	98.716
Average	5.08%	5.22%	98.716

Tenders at the high discount rate were allotted 62%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$43,624,820	\$13,514,053
Type		
Competitive	\$38,044,222	\$7,933,455
Noncompetitive	<u>1,370,868</u>	<u>1,370,868</u>
Subtotal, Public	\$39,415,090	\$9,304,323
Federal Reserve	3,661,430	3,661,430
Foreign Official		
Institutions	<u>548,300</u>	<u>548,300</u>
TOTALS	\$43,624,820	\$13,514,053

5.06 -- 98.721 5 07 -- 98.718



# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE  
December 30, 1996

CONTACT: Office of Financing  
202-219-3350

## RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for \$13,557 million of 26-week bills to be issued January 2, 1997 and to mature July 3, 1997 were accepted today (CUSIP: 9127945D2).

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate</u>	<u>Price</u>
Low	5.09%	5.30%	97.427
High	5.11%	5.32%	97.417
Average	5.11%	5.32%	97.417

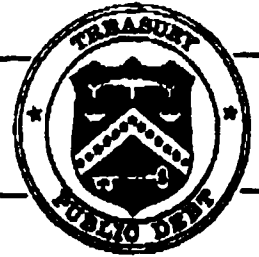
Tenders at the high discount rate were allotted 62%.  
The investment rate is the equivalent coupon-issue yield.

### TENDERS RECEIVED AND ACCEPTED (in thousands)

	<u>Received</u>	<u>Accepted</u>
TOTALS	\$42,492,870	\$13,557,321
Type		
Competitive	\$34,213,910	\$5,278,361
Noncompetitive	<u>1,189,860</u>	<u>1,189,860</u>
Subtotal, Public	\$35,403,770	\$6,468,221
Federal Reserve	3,500,000	3,500,000
Foreign Official Institutions	<u>3,589,100</u>	<u>3,589,100</u>
TOTALS	\$42,492,870	\$13,557,321

5.10 -- 97.422

# PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

For Immediate Release  
December 31, 1996

Contact: Office of Financing  
(202) 219-3350

## TREASURY'S INFLATION-INDEXED NOTES

### JANUARY REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and the daily index ratios for the month of January for the new 10-Year Treasury inflation-indexed notes. This information is based on the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the U.S. Department of Labor. This announcement is made in anticipation of the auction of the inflation-indexed notes on January 29, 1997.

In addition to the publication of the reference CPIs (Ref CPI) and index ratios, this release provides the non-seasonally adjusted CPI-U for the prior three-month period.

Treasury intends to announce the reference CPI numbers and the related index ratio monthly for at least one year.

This information is available through the Department's Office of Public Affairs automated fax system by calling 202-622-2040 and requesting document number 1429. The information will be available monthly on the Internet at the Bureau of the Public Debt's home page at the following address:

<http://www.publicdebt.treas.gov>

The information for February is expected to be released on January 14, 1997.

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PA-243

RR-1432

Contact: Office of Financing 202-219-3350

TREASURY 10-YEAR INFLATION-INDEXED NOTES  
 SERIES: A-2007  
 CUSIP: 9128272M3  
 AUCTION DATE: January 29, 1997  
 ORIGINAL ISSUE DATED DATE: January 15, 1997  
 ORIGINAL ISSUE DATE: February 6, 1997  
 MATURITY DATE: January 15, 2007  
 Ref CPI on DATED DATE: 158.43548  
 TABLE FOR MONTH OF: January, 1997  
 NUMBER OF DAYS IN MONTH: 31

CPI-U (NSA) Sep. '96 157.8  
 CPI-U (NSA) Oct. '96 158.3  
 CPI-U (NSA) Nov. '96 158.6

Ref CPI and Index Ratios for January 1997

Calendar day	Ref CPI	Index Ratio
January 1 1997	158.30000	
January 2 1997	158.30988	
January 3 1997	158.31935	
January 4 1997	158.32903	
January 5 1997	158.33871	
January 6 1997	158.34839	
January 7 1997	158.35806	
January 8 1997	158.36774	
January 9 1997	158.37742	
January 10 1997	158.38710	
January 11 1997	158.39677	
January 12 1997	158.40645	
January 13 1997	158.41613	
January 14 1997	158.42581	
January 15 1997	158.43548	1.00000
January 16 1997	158.44516	1.00006
January 17 1997	158.45484	1.00012
January 18 1997	158.46452	1.00018
January 19 1997	158.47419	1.00024
January 20 1997	158.48387	1.00031
January 21 1997	158.49355	1.00037
January 22 1997	158.50323	1.00043
January 23 1997	158.51290	1.00049
January 24 1997	158.52258	1.00055
January 25 1997	158.53226	1.00061
January 26 1997	158.54194	1.00067
January 27 1997	158.55161	1.00073
January 28 1997	158.56129	1.00079
January 29 1997	158.57097	1.00086
January 30 1997	158.58065	1.00092

TREASURY



NEWS

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EMBARGOED UNTIL 12:00 NOON  
December 31, 1996

CONTACT: Office of Financing  
202/219-3350

**TREASURY'S WEEKLY BILL OFFERING**

The Treasury will auction two series of Treasury bills totaling approximately \$25,000 million, to be issued January 9, 1997. This offering will result in a paydown for the Treasury of about \$2,775 million, as the maturing 13-week and 26-week bills are outstanding in the amount of \$27,781 million. In addition to the maturing 13-week and 26-week bills, there are \$18,910 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold \$12,007 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold \$5,268 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold the entire \$5,268 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, as amended) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

**HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS  
TO BE ISSUED JANUARY 9, 1997**

December 31, 1996

<u>Offering Amount</u> . . . . .	\$12,500 million	\$12,500 million
<u>Description of Offering:</u>		
Term and type of security . . . . .	91-day bill	182-day bill
CUSIP number . . . . .	912794 4E 1	912794 5F 7
Auction date . . . . .	January 6, 1997	January 6, 1997
Issue date . . . . .	January 9, 1997	January 9, 1997
Maturity date . . . . .	April 10, 1997	July 10, 1997
Original issue date . . . . .	October 10, 1996	January 9, 1997
Currently outstanding . . . . .	\$13,165 million	- - -
Minimum bid amount . . . . .	\$10,000	\$10,000
Multiples . . . . .	\$ 1,000	\$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

- Noncompetitive bids . . . . . Accepted in full up to \$1,000,000 at the average discount rate of accepted competitive bids
- Competitive bids . . . . .
- (1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
  - (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is \$2 billion or greater.
  - (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . .

35% of public offering

Maximum Award . . . . .

35% of public offering

Receipt of Tenders:

- Noncompetitive tenders . . . . . Prior to 12:00 noon Eastern Standard time on auction day
- Competitive tenders . . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . .

Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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MHB